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MONEY

WHAT IT IS AND HOW TO USE IT

BY

WILLIAM R. HAYWARD

Principal of the Curtis Evening High School and Chairman of the Department of Economics, Law and Accounting, Washington Irving High School, New York

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TO MY
MOTHER

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PREFACE

THERE has long been a demand, growing more urgent, for the training of young people to a grasp of the meaning and use of money. Much emphasis has rightly been placed upon the need of saving, but, as many a man has discovered by sad experience, we need fully as much to be taught how to spend. This training, especially for women on whom the responsibility for a varied and perplexing business management comes suddenly as an accompaniment of matrimony, has been the subject of an extended and careful study by Mr. Hayward, upon whom the six thousand girls yearly in attendance in the Washington Irving High School have been a large responsibility for a long period. Other experience, both previous and contemporaneous, has aided in maturing his judgment. During his years of teaching, Mr. Hayward's field of action has included a private business

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school, a college for women, a city university, and four city high schools. One of the latter was the High School of Commerce which has prepared so many of New York City's boys for business careers. He has also business experience of several years. For the period covered by the past two years he has been editor of the "Efficiency Society Journal," the official organ of the Efficiency Society, an organization composed of merchants, bankers, manufacturers, and professional men. What he practically worked out in those positions, corrected by experiment and amplified for application to the needs of boys and girls, men and women, is set forth in this book. By means of sufficient connection of the subject with history and economics, he has made it of a wider vital interest than any mere business compendium.

WILLIAM MCANDREW,
Associate City Superintendent of Schools
NEW YORK CITY

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INTRODUCTION

DEFERRED payments are as unpopular in education nowadays as in business. The demand is for power that can become available immediately. The theoretical must be translatable in terms of the practical. Training must be for life. In this living no one test is so constantly applied and so keenly observed as one's reaction toward money. In the business world the use or abuse of money stamps one a success or a failure.

The man who fifty years ago sold potatoes at twenty cents a bushel and laid the money away for his old age, in the expectation that in the year 1917 he should be able to purchase potatoes at the same figure, stands aghast at the inroads into his little pile. Attention to money — knowledge of what it is, how it obtains value, how its power expands or contracts, how it is handled, accounted for, how it operates as master or servant — marks the wise man. The tremendous increase in the cost of living, the

predicted upheaval in industrial conditions in the adjustments following war, force upon the youth of to-day the need of observing the simple principles of thrift.

It was to drive home the need of thrift that "Old Gorgon Graham," in *Letters of a Self-Made Merchant*, wrote to his son: "Pay-day is always a month off for the spendthrift, and he is never able to realize more than sixty cents on any dollar that comes to him. But a dollar is worth one hundred and six cents to a good business man, and he never spends the dollars."

One of the reasons why this book has been written is to help young people to become thrifty. The author, as head of the commercial department of a large city high school, sees the equipment with which young people of to-day are entering upon life's work, and as editor of a magazine devoted to economic efficiency, realizes the standards set by the leaders of industry. In this book he presents the underlying principles of thrift — the wise use of money. The explanations are direct and simple, the illustrative material rich and pat.

INTRODUCTION

In intermediate classes and in the early years of the high school this book will lead the pupils to grasp the motive of the whole commercial course, it will present the economic basis for the intelligent study of history and current events, it will give the classes in English a reading text of inspiring style and practical content. In prevocational classes and continuation schools it will link the school with the job.

In various organizations unconnected with regular school systems such a book will find a welcome. Not only will it meet a need in the reading-rooms of libraries and social centers, but it will also serve as a basis for study and discussion in boys' and girls' clubs. Leaders of the Boy Scouts, too, will find that through the study of this book economic power and independence will take their stand with the physical alertness, moral integrity, and civic responsibility that characterize the troops.

In school and out this book will help young America to acquire thrift.

OSCAR C. GALLAGHER

BOSTON, MASSACHUSETTS

UNIV. OF
CALIFORNIA

MONEY

WHAT IT IS AND HOW TO USE IT

CHAPTER I

WHAT MONEY IS

NEARLY every one who knows anything about money wants it. Almost all of us want as much as we can get. It is very likely that everybody who wants money thinks he knows just what money is. It is also probable that he thinks he knows just why he wants it. But let us see. Perhaps in both cases we can learn to think more clearly about this one particular thing, which, as all of us agree, is wanted so much by so many.

Take a dollar bill for instance. Is it money? Well, not exactly. It may be, and generally is, something "just as good," as they say in stores when they have n't just what we ask for. But how about a Confederate dollar bill? That certainly is not "just

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as good." The Confederate States of America, which issued the bill, have been out of existence for fifty years. They are out of business. "Confederate money," as it is called, is nothing more than a curiosity at the present time.

Then there are checks. Almost always they are "just as good." But sometimes a storekeeper takes a check from a customer, and in a few days finds out that the bank on which the check is drawn will not pay it. The man who gave the check for ten dollars, let us say, had only fifty cents in the bank.

But suppose you have gold coin. That is a different matter altogether. You don't have to take that to a bank, like a check, to find out if it is just as good as money. Even if the nation that coined it went out of existence hundreds of years ago, the piece of gold is much more than a curiosity. You can take it to the United States Mint where this Government coins money. There they will give you United States gold coin in exchange. The reason is that gold always has a value of its own.

Again, why do we want money? It is because other people have things that we want, and they will give us these things in exchange for money. We want to get money in order to turn it over to some one else—for something else. Some people say, "Money is the root of all evil." They think they are quoting what a very wise man once wrote. But they are quoting wrongly. What he wrote was this: "The *love* of money is the root of all evil."

People who love money just for itself are called misers. But almost all people, even those who have many millions of dollars, value their money because it gives them the power of exchanging it for something else. They may not make use of this power at once. But as long as they have the money they know that this power belongs to them.

If, then, there is something that has a value of its own; if it is something that all persons are willing to take in exchange for what they do not wish to keep; and if all persons give this thing in payment for what they owe, then this thing is really *money*.

Of course there is no one living who remembers a time before money was used. Some travelers have found remote regions where money was unknown in any form, but such places are few indeed. Nevertheless, there was a time, before the days of history began, when money did not exist. And long after its adoption by a few of the more civilized nations, a very great part of mankind was still without its advantages. Although such a condition cannot be fully realized by us, yet, in considering the subject of money, we must set our imaginations at work to try to picture the state of affairs that formerly existed.

There are various beliefs, traditions, and theories as to the way in which human life began. The discoveries and studies of some scientific men have led them to believe and to teach us that its first existence was many hundreds of thousands of years ago. Others dispute such statements both on scientific and religious grounds. For the study of our subject it is not necessary to agree with any side. It is generally conceded that, long be-

fore the days of what is called "history," human beings lived in caves in regions where fire was not required to make life possible, and where their food consisted of fruits, berries, nuts, and roots.

Many of these early people seem to have lived in groups or communities; this was probably for protection against certain kinds of wild beasts. These larger communities were divided into little groups composed of a man, a woman, and their children. Apart from the need for general protection, of which we have just spoken, it is probable that each little group was interested in itself alone. The parents found food for themselves and their children, and fastened together whatever clothing was found necessary. By degrees they began to notice the doings of other groups, following them in search of food and imitating them in their coverings. What we hear from travelers among savage tribes leads us to believe that the lives of the children of to-day may guide us in imagining the childhood of the human race. Little children, indeed, are fed and

clothed by their parents. But their earliest energies in play (which is their real life) are used in making various things that suit their childish fancy. Some of these things are exchanged for other things made by their playmates, which seem for the moment more desirable than those which they themselves have made.

Now, to return to the old-time dwellers in the caves. Herbert Spencer's opinion, supported by arguments, is that clothing was first worn, not for warmth, but for ornament. Like little children of to-day, these early human beings decorated themselves as they fancied. Doubtless their changing fancies caused them to covet the decorations of their companions. Then, like little children once more, they exchanged decorations to gratify these fancies. Then, as years went by and the human race grew older, a new method arose such as little children adopt when they become boys and girls. Some of them found that they could make certain things much better than their neighbors. They made more of these things, therefore, than they

themselves needed. These they exchanged for such other articles as their companions were willing to give up. It was precisely the same principle as that on which two boys "swap" a jack-knife for a fishing-rod, or two little girls exchange a doll for a ring.

This is what we call *barter*. Money did not exist, but life was young, its methods were simple, and the need for money was not pressing. People took the time to bargain over their exchanges or "swapping." No doubt they quarreled frequently, and it is probable that often each party to the bargain felt later on that the other person had got the better of him. Still, for a long time this method of dealing seemed good enough. It appeared simple enough, although in reality it was cumbersome. Above all, it doubtless never occurred to any one for a long time that there could possibly be any other way to accomplish the desired purpose.

CHAPTER II

BARTER AND PRIMITIVE MONEY

In the first chapter we arrived at the conclusion that an article must possess three qualities in order that it may rightly be called *money*. These are the qualities: it must have a value of its own; it must be something that all persons are willing to take in exchange for what they do not wish to keep; it must be something that all persons give in payment for what they owe. In the transactions called *barter*, the articles exchanged have only the first of these qualities; that is to say, they have a value of their own. No matter how worthless an article may appear to the person who is giving it in exchange, there must be something which makes it valuable to the person who receives it. The mere fact that he is willing to give something for it shows that to him, at least, it possesses some value. This fact, however, is not sufficient by itself to entitle the object to the

name of money. It is not the common measure by which we value other different objects. To illustrate: A man may go into a shoe store and buy a pair of shoes for three dollars and a half. Another man may go into the same store and buy a pair of shoes for five dollars. If, later, each of these men tells us of his purchase, we can form an idea of what each man has bought, simply by knowing the price — the money value of each. We are accustomed to buy shoes and we know that, by paying an additional dollar and a half, a pair of shoes can be obtained made of finer leather and finished in superior style. If the purchases are shown to us, we see exactly what we expect.

On the other hand, two boys may exchange a jack-knife for a fishing-rod, or two girls may exchange a doll for a ring. When we are told of these transactions, we can form no definite idea of the qualities possessed by the four objects. A boy may be so anxious to go fishing that he may give a very expensive knife for a very cheap rod. Or a girl may have so strong a fancy for a cheap brass

ring in which a piece of colored glass is set that she may give for it an elaborate wax doll which cost a great deal of money to the relative who purchased it for her. In these two transactions of barter everything depended on the individual tastes of the parties to the bargains.

In the far-distant past to which the imagination was directed in the preceding chapter, a time arrived when the transactions of barter changed gradually into bargains involving money. Coined metal is not meant by this, but something else which, though not so simple and convenient, still was entitled to the same distinctive name.

Let us once more set our imagination at work. As the human race grew in experience, and consequently in intelligence, animals were tamed for domestic use. Among the first to be tamed were cattle. People drank their milk or made from it butter and cheese. Perhaps at first the cattle were owned in common by members of each tribe or community. However that may be, the time came when separate individuals owned one

or more of these cattle as their own personal property. But they had other property, and it was such as is not possessed to-day among civilized people. We know that in the earliest historical times a man's wife and his children were his absolute property, to be dealt with as he saw fit. This fact shows that a time came when a man could not choose a wife according to his fancy and simply take her to his home. The girl or woman of his choice was property — the property of her father. He must give her father something of value in order to obtain her. At first, no doubt, various objects were offered by different suitors to tempt the fancy of the father. By degrees it is probable that a father, when asked for his daughter, reasoned in something like this fashion: "Here is a young man who wants my daughter very much. He will give for her something that he values almost, but not quite, as much as he values the girl. Perhaps he will even give me a cow. My daughter works for me and is useful; but a cow would be worth even a little more to me. I will ask him for a cow

in exchange for the girl." And so the exchange was made. At first it was simply barter. Then the exchange of a cow for a wife became a usual transaction. Perhaps two young men wanted the same girl, possibly because she was unusually clever at household tasks, but more likely because she was unusually beautiful. Then one man would offer two cows instead of one, and the prize would be allotted to him. By degrees one or more cows would invariably be given for a wife. The value of a cow was something well known to everybody. Thus the number of cows given for a girl was an indication of the value in which she was held. Cattle had become money in the true meaning of the term. They were the first money of which we have any record, and probably they were the first objects of value which deserved the name.

There is a part of the world where this custom of buying a wife, slightly varied, has lasted until recent times, and perhaps exists even at the present day. In that region of Western Asia known as The Cau-

casus, the women are said to be unusually beautiful. In families where one of the daughters possessed exceptional beauty she was not permitted to do any work whatever. She received every care and attention. No pains were spared to cultivate every charm with which she was gifted. Then, when her beauty was considered in perfection, she was taken to Constantinople and offered in exchange — not for many cows, but for their equivalent in Turkish *piastres*.

We see, then, that the first money, cattle, consisted of objects of utility. We know, however, that in early times articles of ornament also were used as money in the true sense. Among the North American Indians a certain rare seashell was valued for its beauty. Chains of these shells were collected and used at first as necklaces, bracelets, and belts. Like everything that came under the head of property, they were, of course, objects of barter. Then by degrees these shells became the *principal* objects of barter. A fixed number of shells of the same size and quality were strung together

and were called "belts of wampum." Objects of general use or desire were exchanged, as a matter of custom, for so many belts of wampum. Wampum had become money.

In all ages children have imitated in play the doings of their elders. In our own day almost all children have at some time "played store." One child collects various treasures, places them on an imitation counter, and sells them to playmates. For one article so many pins are demanded. For another article the price is a greater number of pins. Then, with the pins thus obtained, the youthful storekeeper goes to another child's store, and buys whatever fancy may dictate. In this child world of purchase and sale, the pins of the youthful merchants are for their purposes really money.

CHAPTER III

DEVELOPMENT AND USE OF METAL MONEY

THE desire to wear ornaments, as a trait of the primitive tribes as well as of civilized races, has already been noted. Wild flowers were doubtless worn for this purpose from remotest times. The earliest traditions speak of the use of garlands of flowers to deck the altars of the gods or to enhance the charms of beautiful women. It is not likely, however, that flowers were ever objects even of barter. A desire for rare plants is developed with the complex civilization of more modern times. As an instance, may be mentioned the period when a craze for tulips took possession of the entire population of Holland and fabulous sums were paid for rare specimens of that flower. In early days articles of rarity, in order to be of value for barter, were less perishable than flowers that faded in a day. Rare shells and other nat-

ural objects found on the surface of the earth had their day, and then came ornaments made from substances that were dug from beneath the surface. Silver and gold, were discovered and their beauty admired. From that day until the present time these two metals have been eagerly sought by almost all mankind. Their relative values have varied, but from the earliest day of history and tradition there has never been a time when gold and silver have not been thought of as wealth. These metals were shaped, first roughly and then with more care, into such objects of ornament as the fancy of each person dictated. Then rings of a standard size were used for purposes of exchange. When this occurred, gold and silver ceased to be merely articles of barter and became money in the true meaning of the word. In the records of the early Hebrew Scriptures the sons of Jacob took money into Egypt to buy food. This money, it is known, consisted of rings of metal, probably silver. Then, instead of rings, — or in addition to them, — solid pieces of

metal, of standard weights, came into use, and for ages were the money of the world. As simplicity developed into skill, the latter was accompanied by rascality. Rings and weights were made which were represented to be pure gold or silver, but which were mixed with baser metals. Also cheap metals were covered by a coating of gold or silver for the purpose of deceit.

Some mark was needed to distinguish good money from its counterfeit. Then rulers caused likenesses of themselves to be stamped on pieces of metal of different sizes, to which different names were given. Coined metals had become the money of civilization. Money, in the true meaning of the word, was, in the beginning and in early times, something that could not only be obtained, but produced, by almost every individual. Whether it were cattle, wampum, metal rings and weights, or gold and silver bars or disks with the values or weight stamped or carved on them — in any case almost every one was able by industry or skill to produce his own money. The time came, how-

ever, when the governing authority reserved for itself the right to place its mark on the pieces of metal which had then become the almost universal medium of exchange. A king would cause a stamp to be engraved with a likeness of himself, or with his name, or both, and these would be stamped upon pieces of metal of known weight and value. Such pieces of metal were known as *coins*. From that time until the present day they have remained as the basis of all systems of exchange. Doubtless they will continue to hold that position until the time shall arrive (if indeed that time ever comes) when a still higher degree of civilization shall render the use of money needless.

A curious instance of the use of a metal for money occurred in the early days of Greece. Although Athens and nearly all the other States made use of silver coins, one of the States, Sparta, forbade the use of any money except iron weights bearing the stamp of the Government. This iron money had only one of the three necessary qualities spoken of in the first chapter. It

had no value of its own, or only a very slight value. All persons were not willing to take it in exchange for what they did not wish to keep. The people of Sparta, it is true, did take it in exchange, but they did so unwillingly and only from fear of punishment in case of refusal. The third quality, indeed, it did possess. People who were in debt gave it in payment by law and custom. The iron money of Sparta, therefore, was money only in name. It was forced by law upon the people, and before very long it passed out of use and gave place to the money of civilization.

CHAPTER IV

THE RELATION OF MONEY TO PROGRESS

LOOKING backward, however far, into the remote past when traditions were first written and called "history," we still find records of the unfortunate beings who are spoken of as "slaves." Not only did all that they produced belong to their masters, but even their lives were at the mercy of the same tyrants. But there is a lesser degree of slavery that contains some of its galling elements. That semi-slavery is called *debt*. It existed before the dawn of history, and it exists to-day. In some countries, and in some ages, it was even the law that when a debtor was unable to pay his obligations he could be sold into absolute slavery in order that the price obtained might be paid to his creditors.

The common form of obligation in early ages was the payment which the poor culti-

vators of the soil were forced to make to tl powerful nobles or lords of the land. A certain large proportion of all that they produced must be given to these masters before they themselves were permitted to enjoy what remained. In many cases the peasants were forbidden under any circumstances to leave the place where they happened to be born. But in no event could they hope to go elsewhere while any obligation to their superiors remained due. Almost all the inhabitants of Europe were thus once practically chained to the little spot where they first saw the light of day, except when their leaders forced them to march away and fight battles under their banners.

By degrees, however, another custom grew up. Instead of giving the nobleman a certain number of oxen and sheep or a certain number of bushels of wheat, the producer was allowed to pay a sum of money. He could obtain this money by selling the cattle, sheep, or wheat, or in any other way that he was able, provided he did not interfere with any of the rights of his noble masters.

Some of the people began to earn money in simple trades, as smiths or weavers of cloth. At first these trades were practiced when time could be spared from the regular employment of cultivating the land. Gradually more and more time was given to the trades until at last no time was left for anything else. Agricultural laborers — some of them — had developed into artisans. Then it was found convenient by them to live in towns in order to practice their trades. Permission was obtained to do so — of course through the payment of money.

In time associations were formed called "guilds." Their members lived in the cities, and, by means of money payments, obtained the protection of very great nobles and even of the king. Their members were no longer bound to one spot of earth, but were permitted to travel to various points of the country and even into foreign lands. Guilds and associations of merchants became more and more wealthy and powerful until even free and independent cities arose, such as

Hamburg, Bremen, and Lübeck. Money had helped people, if not to become really free, at least to secure a greater measure of freedom. Other obligations were also discharged by the same convenient means of money payments. Instead of following the nobleman to battle, it was possible to avoid service as a soldier by paying money.

In civilized countries slavery, at least under that name, has ceased to exist. But the partial slavery of debt can be seen on every hand. For its existence there is sometimes good and sufficient reason. Always an excuse of some kind can be found for it, whether the excuse is good or bad. Whatever the reason and whatever the excuse, it is certain that debt is always a burden. The remedy is money. Industry and skill will obtain it. Economy will enable us to save part of our earnings and apply that part in payment of the debt. In time the entire obligation will be paid. Money will have become our servant, and we ourselves shall be really free.

CHAPTER V

HOW MONEY GROWS

LET us suppose that a man saves out of his year's earnings the sum of one hundred dollars. He locks the money in a strong box, and feels contentment in the knowledge that if he has need for it he can go and get it at any time. At the end of another year if he goes to the strong box he will find exactly his one hundred dollars — neither more nor less. But let us suppose that a friend who is in business comes to him and says, "My business is so good that I want to increase it. Lend me one hundred dollars to use in my business, and at the end of the year I will return you one hundred and six dollars." You say to yourself, "If I lend this money, I cannot lay my hand on it at any time in case of need. But I shall probably not need it for a year. In fact I shall probably save another hundred dollars during next year. And if I lend this money to my friend it will grow."

You therefore lend him the money. At the end of the year he returns you your hundred dollars and also an additional sum of six dollars in payment for the use of the sum lent by you. The additional six dollars is a payment for what is called *interest*.

You have now the sum of one hundred and six dollars which you can either lock up or lend. If you lend it for another year you will receive back one hundred and twelve dollars and thirty-six cents. In other words, the money received in payment for interest at the end of the first year has itself produced more money in payment for interest by the end of the second year. The extent to which money can grow in this manner is not realized by every one. If money is loaned at six per cent a year, and the entire sum received back is loaned again at six per cent for another year, and the process is repeated, the original sum will be doubled in a little less than twelve years. One hundred dollars will have grown to two hundred and one dollars and twenty cents in twelve full years. If, however, a hundred dollars are saved

every year, the total amount at the end of twelve years of lending will be $1788.20. That is, $1200 of savings will have produced $588.20 in payment for interest.

Of course it is not safe to lend your savings to anybody who wishes to borrow them. A friend may be very hopeful that his business will be good in the future. He may borrow your money and by ill luck or bad management he may lose all that he has, including what he has borrowed from you. It is, therefore, necessary to use care and judgment in lending. Some people are able to save money, but have no means of judging who are the safest persons to whom to lend it. For their benefit savings banks have been established under the control of the State. Their management is carefully watched, and money entrusted to them is seldom lost. But money loaned to savings banks will not produce six per cent. If you wish to enjoy the feeling that your money is perfectly secure in a savings bank, you must be content to receive four per cent or less. Thus we realize that it is not enough to save part of

what we earn. We must be careful to whom we lend our savings or they may be lost.

It would have been impossible for money to have been loaned over and over again without loss for a period of five hundred years. Wars, dishonest borrowers, careless lenders, accidents, and other causes would certainly have caused immense losses. But if we can imagine it to have been possible, let us suppose that the sum of one cent had been loaned in the year 1417 at six per cent interest, and that at the end of every year all the money that was returned had been loaned again at the same rate. In 1917, at the end of five hundred years, the original one cent, with the accumulated payments for interest, would have grown to the almost incredible sum of $44,967,205,970.71 — nearly forty-five thousand millions of dollars.

When we consider, then, how abundantly this plant, money, can be made to blossom, when the seed is properly planted and carefully watered, we can realize the folly of scattering that seed where it can never grow. A young man who earns a good salary may

say to himself, "Oh, what's a ten dollar bill! What's the use of saving a 'ten spot'?" Or else, "I've only got a few dollars. I'll blow them in. I might as well be broke as the way I am." And thus he flings the seed on "stony ground."

Another young man, earning perhaps a smaller salary, saves what he can and puts it in a savings bank. In a strangely short time he finds a good sum there. An opportunity occurs where his judgment tells him that he can safely draw this money out of the bank and invest it where he can obtain a higher rate of interest. His savings begin to grow at a quicker rate. He sees himself the master of a small capital, and success is opening before him.

CHAPTER VI

HOW MONEY IS OBTAINED

When the subject of money was first discussed we stated that all of us want money. The time has now arrived to consider the different ways of obtaining it. Money can be obtained by gift, by earning, by finding, by gambling, and by stealing.

The last of these methods it is unnecessary to discuss. In a later chapter we shall consider the question of gambling, and compare it with speculation. Finding money is a rare occurrence and may be brought under the heading of either gift or earning. When money is found we know that it was the property of some one else. Our proper course is to discover the owner if possible and return his property to him. If after a reasonable effort we are unable to find the owner, we are justified in considering the money our own. It then can be called a gift of chance

or it may be considered as having been earned by our efforts to find the former owner.

The way in which almost every one obtains money is by receiving it as a gift. Parents give their children money as a present because they love them and enjoy seeing the happiness that comes to them from spending the money. In the beginning, usually, money is given to a child irregularly, either when it is asked for or when the wish to give enters the mind of the parent. As the child grows older it often happens that a stated allowance is made, a regular sum being given each week as spending money. An allowance of this nature is the link that connects the period of time when a gift of money is an occasional and perhaps unexpected event, and the later period when money is earned by the boy or girl.

Human beings are accustomed to value the things that are hard to get. The more difficult it is to obtain them, the more highly, as a rule, they are prized. When the time arrives that we are compelled to work in or-

der to get money, the natural result follows. The harder we have to work, the more valuable the money will appear to us, and the greater care we will take that it shall not be wasted. The money that is given to children has usually been earned by their parents. It represents work on their part, often very hard work. It would be a rude and unkind act if a child, when receiving a present of money, should immediately fling it into the river. But wasting money by spending it foolishly is, in a certain sense, flinging it away. A little child will generally spend a gift of money for candy. That is natural, and the parents expect this to happen. As a child grows older, however, the fact is taught or discovered that, no matter how money is obtained, it must have been earned by somebody in the first place. If, then, we obtain without work what some one else has worked for, we should feel that a certain obligation rests upon us. We should not fling away, directly or indirectly, something that we have obtained so easily, but for which the giver has worked so hard.

Money, as we have said, must be earned by somebody in the very beginning. Why should any of us expect to obtain it in an easier way? Why, indeed, should we even *wish* always to get something for which others must have worked? A person of proper self-respect does not wish to be dependent always on another. A child who receives a fixed allowance weekly, learns a valuable lesson. It is that, if the money is all spent on the day it is received, a whole week will pass before any more money can be had. Gradually the habit grows of thinking and planning before spending. The next step is saving. A boy may be told that, if a certain sum is saved, it can be used as capital in a little business of his own. His father may agree to add a further amount of money as a reward for his perseverance in saving. If he lives in the country, he may be given a small piece of ground to cultivate. He buys seed to plant and a hoe, rake, spade, or other necessary articles. Some fruit or vegetable is grown that can easily be sold to the nearest storekeepers. Then, when the

sale has been made, the boy has money of his own that he himself has earned.

Boys have collected scrap iron, brass, and other metals, and sold this material to junk dealers. Sometimes the boys have had to pay a trifle for the metal, but often the owner has been glad to give it to them for their trouble in removing it. Other boys have spent part of their time in selling a well-known weekly magazine, buying a number of copies from the proprietors at a price that will show a fair profit when the magazines are sold. Other boys have sold newspapers on the same plan. All these boys are actually merchants in a small way. Other boys have earned money by working for local merchants on Saturdays and holidays.

Girls in like manner have proved their ability to earn money even before the time when they are able to secure regular salaried positions. Some of them have tinted postal cards or made water-color sketches and other paintings, and have sold them to dealers, especially during the holiday seasons. Others who have skill in sewing or embroidery have

used that ability in making articles of use or ornament, and have sold them to stores or to individual customers. In every one of these cases the boy or girl merchant or producer has not only gained the satisfaction of earning money, but in addition has made valuable preparation for the serious business of life.

CHAPTER VII

KEEPING ACCOUNT OF MONEY

An account is a story of something that happened. The best and clearest account is a story that begins at the beginning and tells everything that happened in the order in which it occurred. When the word "account" is used in a business sense it is also a story — a story of business happenings told in terms of money. Business histories of this nature may be divided broadly into two classes. An account may be a history of transactions with a certain person or a history of transactions of a certain nature. The first is called a *personal account* and the second is called a *business account*. Personal accounts are explained to some extent by their name. Business accounts (to make another subdivision) may be separated broadly into three classes: (1) money received and paid; (2) goods bought and sold; (3) the cost of carrying on the busi-

ness. These accounts are named, respectively, *Cash*, *Merchandise*, and *Expense*.

We shall now study the origin and growth of an account on the principle applied to the study of money values.

In a previous chapter the subject of debts has been treated. The simplest form of an account, and probably the earliest one, is the record of a debt. This record may have been inscribed, thousands of years ago, by an Assyrian merchant on a clay tablet, which was then baked into a brick. Or, perhaps, earlier still, the same thing may have been done by a business man of the Hittites. Later on, the Egyptians kept accounts in hieroglyphics, and the Phœnicians made records in letters of their alphabet. The system of keeping accounts goes by the name of "bookkeeping." Like all systems it has a technical jargon of its own. Because of the jargon many people have received the impression that bookkeeping, the science of accounts, is difficult to understand. Such is not the case. In this science there is but one rule to be learned by heart. This

rule is the corner-stone of the system; and it never varies. In the study of foreign languages, for instance, the rules of grammar have many exceptions. In bookkeeping there is one rule and no exception. We shall now try to trace this fundamental rule.

Business transactions with a person may be of two kinds, value *given him* and value *received from* him. In the earliest accounts — namely, records of debts — the merchant wrote the name of the person who owed him money, then probably a description of what was sold to this person, and finally the amount he owed. When the person paid his debt it is probable that no record of the payment was made. The clay tablet was simply broken by the Hittite or Assyrian merchant.

Oriental nations, as a rule, write from right to left, and therefore the inscription recording a debt probably was begun at the right side of the clay tablet. The Greeks and Romans, who did their writing from left to right, doubtless began their accounts on the left side of the papyrus or wax tab-

lets used by them. The inventors of modern bookkeeping, being descendants of the Romans, followed this course, and thus, in all probability, the custom arose of recording debts due by a customer on the left side of an account. However this may be, it is a fact that this custom exists. In telling the story of business transactions, — that is to say, in keeping accounts, — we must follow this custom, in order that our story may be intelligible to the readers.

We have seen that the earliest and simplest account was probably a record of a single debt. When the debt was paid, the account was destroyed. Gradually the records became more complex, when debts and payments alternated, and when partial payments were made. Breaking a clay tablet, or drawing a canceling line through a papyrus record, or smoothing the surface of a wax tablet was found too primitive and unsatisfactory a method of recording payments. At first the written records of debts and their payment followed each other in the order of their occurrence. But this was

found unsatisfactory in its turn. A record was needed which would show *quickly* how much money was owed by the person whose name was at the head of the account. A line was drawn down the center of the record, dividing the debts from the payments; on the right side payments were recorded; and both debts and payments were entered in the order of their occurrence. The whole story was told and its conclusion was clearly understood by the reader. Thus, in all probability, common sense and custom brought about the adoption of the one rule, the *fundamental rule*, of the science of accounts. On the left-hand side of the account were recorded the values of all that the customer received—in other words, his debts. On the right-hand side of the account were recorded the payments made by the customer to offset his indebtedness. The rule of bookkeeping, then, is as follows: "Charge an account with the value of all that it receives; and credit an account with the value of all that it gives." Everything that is done in accounting, from be-

ginning to end, without exception, is done in accordance with this rule. Bookkeeping may be said to be composed of addition, multiplication, and common sense.

This rule, which appears so logical when applied to personal accounts, can also be made to appear equally clear in its application when business accounts are in question. This is particularly the case with those who are beginning the study of bookkeeping. Suppose, for example, we take a transaction in which a man pays money in settlement of a debt previously contracted. A customer named Edward C. Williams, who bought one hundred dollars' worth of goods some time ago, without paying for them, now comes and pays one hundred dollars. According to the rule, his account must be *credited* with one hundred dollars. It is not clear to the beginner why the Cash Account must be *charged* with one hundred dollars. Nevertheless, it is a fact that the Cash Account must be so charged or debited — these two words having the same meaning. Let us now proceed to analyze the transaction.

We will put aside, for the moment, all consideration of Cash Account as an abstract idea, and confine our attention to personal accounts alone. We will suppose that, when the business is started, a young relative of the proprietor, named Henry Jones, wishes to obtain a practical knowledge of business. He agrees, in exchange for the information he will gain thereby, to act as cashier for a time. He is given the key to the cash drawer and the combination to the safe, and is placed in full charge of the money. On the day that the business opens, the proprietor has one thousand dollars in currency. This sum he hands to Jones, who locks it up in the safe. It is quite evident that this sum of money is not the personal property of Jones. It is the property of the proprietor, held in trust by Jones, and subject to the demand of the owner. In other words, it is a debt owed by Jones to the business. It is therefore perfectly proper to open an account on the books of the business under the heading "Henry Jones," and to charge that account with

one thousand dollars. Now, let us suppose that a customer buys ten dollars' worth of goods and pays for them in cash. The customer is a stranger. We do not know his name, and we do not need to know it. The proprietor sells the goods, hands them to the customer, and receives the money. Then, after the customer has gone away, the proprietor hands the ten dollars to Jones, who locks the money up in the cash drawer. Evidently he owes the business ten dollars more, and the account of Henry Jones is therefore charged with ten dollars in addition to the previous charge of one thousand dollars.

Leaving this form of transaction for the time being, let us suppose that another customer, J. J. Stone, buys one hundred dollars' worth of goods, but does *not* pay for them. Under the rule, his account is charged with one hundred dollars. A month later, Stone comes in and pays one hundred dollars in cash. According to the rule, his account is then credited with one hundred dollars. But something else has happened

besides the payment by Stone. The money that he has given to the proprietor has been handed by the latter to Jones, who has locked it up in the safe. It is not sufficient to credit the account of Stone with one hundred dollars. Another account is involved. Henry Jones must be *charged* with one hundred dollars. Not only must the account that *gives* be credited, but the account that *receives* must be charged. This is the rule. Stone has given, and Jones has received.

So far as practical results are concerned, it makes no difference whether the account of the person who has charge of the money in this case is kept under the heading "Henry Jones" or under the heading "Cash." It is the custom, however, to give the title "Cash" to the account of the cashier, whatever the name of the cashier may be.

Let us now consider the three classes of business accounts, *Cash*, *Merchandise*, and *Expense*. In order to become familiar with them, they can all be represented as persons if we so desire. Cash Account can be our

account with the *person* who has charge of the money — in other words, our cashier. Merchandise Account may be our account with the *person* who has charge of the goods — namely, our stock clerk. Expense may be our account with the *person* authorized to provide everything necessary for the proper conduct of our business.

Let us take the first of these accounts; for example, cash which has been received by the business. It may be money contributed by the owner as capital; it may be money received from the sale of goods; or it may be money paid by a customer in settlement of a debt. In any case, this cash is handed to the cashier. It is not the property of the cashier; but it is the property of the business, temporarily in the hands of the cashier for safe-keeping. In other words, it is a debt owed by the cashier to the business. The cashier has received value, and consequently owes that value to the business. The rule of bookkeeping is applied, and the account of the cashier — namely, Cash Account — is charged.

Later on, cash is paid out by the business. It may be money withdrawn by the owner for personal expenses. It may be money paid for the purchase of goods, or it may be money paid to a creditor in settlement of a debt. In any case, the cashier is directed to pay, and he does pay. The money paid by the cashier is not his own property, but it is the property of the business. In other words, the cashier, when he is directed to pay out money and obeys his instructions, is thereby returning to the business a part of the money which he owed to the business. The rule of bookkeeping is applied, and the account of the cashier — namely, Cash Account — is credited.

The Merchandise Account can be treated as a person in like manner. When goods are bought with the intention of selling them at a profit, these goods are given into the care of the stock clerk. His account — namely, Merchandise — is charged with the cost of the goods. This is done because the goods are not the property of the stock clerk, and he owes the business the amount the goods

are worth. When he returns the goods, he ceases to owe for them, and the debt is thereby paid. But when goods are sold, the stock clerk is directed to deliver them to the customer. When he does so, he has practically returned the goods to the business from which he received them. The account of the stock clerk — namely, Merchandise Account — is therefore credited with the value of these goods delivered by him for which he no longer owes the business.

The difference between the Merchandise Account and the Expense Account is theoretical, although the application of the rule to these accounts is eminently practical. The difference is one of intention. The Merchandise Account is charged with the cost of things purchased with the intention of selling them again for profit. The Expense Account is charged with the cost of things purchased with no intention of selling them again for profit or otherwise. In the operation of any business, however, it is necessary to pay out sums of money for such items as fuel, light, clerk hire, stationery, etc.; and these

items are usually spoken of as expense items. These expenses, and others of a similar nature, are properly charged (debited) to the Expense Account.

Before explaining separately the specimen accounts that are shown on pages 48 and 49, a few words of general explanation are needed.

The difference, in dollars and cents, between the two sides of each account, shows whether this account owes money to the business or is owed money by the business. The accounts are kept in order that this information can be obtained at any time.

Every entry in every account is dated, and the first entry in every account is a guide to the nature of that account. For example, if the first entry in an account is a charge for merchandise, it is almost certain that it is the account of a customer. On the other hand, if the first entry is a credit for merchandise, we may be practically sure that this is the account of one of the firm's creditors.

The account of Philip S. Morgan is that

Philip S. Morgan.

1916						1916					
Sept.	20	Cash		10	00	Sept.	1	Investment		750	

Benjamin F. Lee.

1916						1916					
Sept.	6	30 Brls Flour		187	50	Sept.	25	Cash		100	00
	14	10 " Sugar		120	00						

Francis H. Leggett & Co.

1916						1916					
Sept.	28	Cash		200	00	Sept.	9	40 Brls Sugar		410	00

Cash.

1916					1916				
Sept.	1	Investment	750	00	Sept.	3	100 Brls Flour	475	00
	11	20 Brls Flour	120	00		10	Rent	60	00
	16	6 " Sugar	70	50		18	Stationery	3	50
	25	B. F. Lee	100	00		20	P. S. Morgan	10	00
						28	F. H. Leggett & Co.	200	00

Merchandise.

1916					1916				
Sept.	3	100 Brls Flour	475	00	Sept.	6	30 Brls Flour	187	50
	9	40 " Sugar	410	00		11	20 " "	120	00
						14	10 " Sugar	120	00
						16	6 " "	70	50

Expense.

1916				
Sept.	10	Rent	60	00
	18	Stationery	3	50

of the proprietor of the business. On September 1 he invested $750 in cash. The business owed him that much money and his account with the business was therefore credited with that amount. On September 20 he drew out $10 for personal use, and he was charged with that sum, because the business owed him then, not $750, but $10 less.

The first entry in the account of Benjamin F. Lee was a charge on September 6 of $187.50 for 30 Brls Flour. Evidently this man is a customer who has bought thirty barrels of flour without paying for it at the time of purchase. He is a *debtor* to the business for the value of the flour, and has therefore been *debited* (or charged) for it. On September 14 he made another purchase on the same terms and again he has been charged. On September 25 his account has been credited with $100 for cash. This means that on September 25 he made a payment of $100 to offset part of what he owed. The debit side of his account is now $307.50 and the credit side is $100. The

difference shows that Benjamin F. Lee owes the business $207.50.

The account of Francis H. Leggett & Co. is started with a credit of $410 on September 9 for 40 Brls Sugar. The business bought this sugar on that date from Leggett & Co. without paying for it. Leggett & Co. are creditors of the business and their account was given credit for the amount owed them. On September 28, a cash payment of $200 was made and charged to their account. The difference between the two sides of the account shows that Francis H. Leggett & Co. are still *creditors* of the business for $210.

The Cash Account was begun by a charge of $750. This is the money invested by the proprietor. He was given credit because the business owed him what he invested. But Cash Account was charged because the cash department owed the business the sum of $750, which had been handed to that department for safe-keeping. Cash Account was charged again with the money that came in from the sales of merchandise and for a payment by B. F. Lee. Lee was given *credit*

in *his* account for this payment, but cash is *charged* because, when the money was received from Lee, it was given to the cash department for safe-keeping.

On the credit side of Cash Account are entered, in succession, all the payments made in cash, whether these payments were for merchandise or for expenses, or to the proprietor or to reduce the indebtedness of the business to a creditor. Whatever the reason for a payment may be, the moment that the cash has been paid out, the Cash Account holds that much less money for which it is responsible to the business.

Merchandise Account is charged with the value of all goods bought, on the date of their purchase, whether they were paid for or not, and is credited with the value of all good sold, on the date of the sale, whether payment was received for them or not.

The difference between the two sides of the Cash Account shows how much money the cash department owes to the business, or, in other words, what is the amount of "cash on hand." The difference between

the two sides of the Merchandise Account shows (approximately) the value of the unsold goods, for which this department is responsible to the business. The word "approximately" is used, because the amounts of money credited to Merchandise Account, when sales are made, include the profits on these sales. The way in which these profits are dealt with is a part of the science of accounts, or bookkeeping.

Expense Account is charged with the cost of everything that is bought for use in carrying on the business, but not for the purpose of sale.

CHAPTER VIII.

SUBSTITUTES FOR MONEY

FROM the very early ages until the present day, gold and silver coins have been the real money of the world. All through ancient times and through what are known as the Middle Ages, people managed to get along and transact their affairs without any real substitute for coins. It is true that during that early period a means was adopted to avoid the necessity of carrying large amounts of coined money for great distances. Merchants in one city, for example, were accustomed to transact business with merchants in a far-distant city. These cities may have been Rome in Italy and Alexandria in Egypt, among many others. A man in Rome who was about to travel to Alexandria would deposit a sum of money with a merchant in Rome. The merchant would give him a form of letter addressed to a merchant in Alexandria, directing the latter

to pay the same amount of money to the traveler upon his arrival in Alexandria. In this way the necessity was avoided of transporting the coin on what was then a very long and often dangerous journey. The Roman merchant would, of course, receive payment for affording this convenience, and the two merchants would settle their accounts by means of the merchandise which they were accustomed to ship to each other.

The particular kind of letter which was given in such a case was known as a *bill of exchange*. It was a convenience, and a great one, but it was not in all respects a *substitute for money*.

It was not until modern times that *real* substitutes for money were adopted. The business of *banking* has long been in existence. It is known that, in the year 1270, the Government of Venice required security to be given by money-changers as a condition on which they were allowed to do business. There is no record that the money-changers in that year received deposits from their customers. But in the year 1318 an

act of the Venetian Senate recognized the receipt of deposits by money-changers as an existing practice. Thus, between 1270 and 1318, the money-changers of Venice were becoming *bankers*. The first public bank in Europe was the Banco di Rialto in Venice, established in 1584.

Beginning in the year 1656, banks were permitted to issue written promises to pay certain sums of money whenever the holders of such papers presented them and demanded payment. Such papers were more convenient to carry than pieces of gold and silver. Where a bank had a high reputation, and people did not doubt its ability to pay whenever demand was made, such written promises were often preferred to coin as a matter of convenience. They were known as *bank-notes*. In China, bank-notes were current about the year 800. They were first used in Europe by the Bank of Sweden about 1656.

The privilege of issuing bank-notes was extended by degrees to many institutions, especially in England in the early years of

the nineteenth century. Sufficient care was not taken in selecting the bankers to whom this privilege was given, and in many instances they were unable to pay when the time came that the money was demanded. It was considered by everybody, however, that governments themselves were certain to pay if they promised to do so. As early as the eighteenth century, therefore, banks were established under the direct authority and control of governments, and these banks issued bank-notes that were gladly received throughout the kingdom — for example, in England and France. Following this practice, governments began to issue notes themselves without using banks as their agents. Such notes were known as *government notes.* They were issued in America by the Continental Congress at the time of the American Revolution. As the war with Great Britain progressed, the Congress became unable to pay coin for the notes when it was demanded, and the result followed that "Continental money," as it was called, became much less valuable than coin. The

notes of the United States to-day, however, can always be exchanged for coin whenever the holders of the notes make a demand for it. To-day, therefore, practically every one prefers to carry government notes, or bank-notes guaranteed by the Government, instead of money.

There is another substitute for money which is even more convenient. Indeed, business as it exists could not be conducted without such substitutes, which are known as *checks*.

When money is deposited in a bank, it is usually the case that the bank promises to pay it back to the depositor whenever it is demanded. He can go to the bank, ask for whatever part of his money he wishes to take out, and he will receive it at once. It is not necessary, however, for the depositor to go to the bank himself for this purpose. An arrangement is made by which he can write an order for the bank to pay money, whenever it is demanded, to any one named in the order. The bank agrees to pay as many such orders as the depositor may

write, and to pay them as soon as they are presented at the bank, provided always that the total amount of money called for by the orders does not exceed the amount of money which has been deposited. Such an order on a bank is called a *check*.

It can easily be seen that a check is not only a convenience, but that it adds safety to a business transaction. Coined money, if it is lost or stolen, is almost impossible to trace. Bank-notes can be identified, as each one bears a different number, but it is difficult to trace them even when their numbers are known. A check, however, is payable to a certain person whose name is written on it. If a bank pays the money to any other person the bank must suffer the loss, and not the person who has written the check.

Checks are also of value because they are a proof that money has been received by the persons to whose order they are drawn. When a man receives a check from a depositor in a bank, he can get his money as soon as he demands it from the bank. He is obliged, however, to satisfy the bank that he

is really the person named in the check, and then it is necessary for him to write his name on the back of the check and leave it with the bank when he receives the money.

The bank gives each depositor, from time to time, a written statement of how his account stands. At such time the bank returns to the depositor all the checks that have been paid. The depositor, if he is wise, will keep these paid checks. If at any time a dispute arises as to whether money has been paid, the depositor can find the check which he drew and by means of which the payment was made. On the back of the check will be found the signature of the man to whose order the check was drawn, and this is proof that the man has received the amount of money named.

CHAPTER IX

BANKING

ALMOST every one who wishes for money and tries to get it is engaged in selling something for money. That which is sold is the person's labor, or it is something that he has bought and improved by his labor, or it is something that he has bought and tries to sell for more than he paid for it. Working-men, and professional men, such as doctors, lawyers, teachers, and architects, sell their labor. Artisans, such as tailors and carpenters, if they buy their own cloth or building material, and artists, such as painters and sculptors, sell what they have bought and improved by their labor. Persons who buy articles with the intention of selling the same articles for more money, are called *merchants*, and that which they buy and sell is called *merchandise*.

There are certain merchants whose merchandise is *money*. They buy and sell money.

That which they give or receive in payment is a written promise to return the money with a payment for interest in addition. Such merchants are called *bankers*.

Money can be sold, of course, in the form of actual coin; and this is done continually. The merchants who make this their business are called *money-brokers*. But this form of transaction is not part of the business of regular bankers. Bankers sell money in two ways. The first way is to hand the money to a customer and receive his written promise to pay the money back at a future time with a payment for interest added. This transaction is called a *loan*.

The second way is for a customer to hand the banker a written promise to pay money (either his own or else a written promise which he, the customer, has obtained from some one else). In return, the banker gives the customer a sum of money less than the amount named in the written promise. This transaction is called a *discount*. The second method is almost always used when the customer is giving a written

promise to pay at a fixed future date. The first method is always used when the loan is "on call"; that is, when the written promise is to pay at no definite time, but whenever the money is demanded. The first method is also used occasionally even when a fixed time for payment is named.

We have said that bankers buy money as well as sell it. One way in which they buy money is by issuing bank-notes, which were explained in the previous chapter. The banker receives money and gives in exchange bank-notes which are his written promises to pay back the money whenever it is demanded.

The way in which banks obtain the greater part of the money which they use, however, is from deposits. A customer hands money to the bank and in exchange receives a passbook in which is entered the amount of his deposit. The bank agrees that the customer can draw out his money whenever he wishes, either by presenting the passbook (as in the case of savings banks) or by writing checks. Practically the bank buys money of the cus-

tomer and gives in exchange a written promise to repay it. The passbook is this written promise. The bank knows that all the customers will not demand all the money back at once. As a matter of fact, most banks keep on hand about one quarter of the amount of their deposits for the purpose of paying the demands of customers. The rest of the deposits they use for the purpose of making profits; that is, loaning it and receiving payment for its use.

When money is the merchandise in which dealings are made, it can thus be seen that lending money is selling and borrowing money is buying. The price in each case is a written promise to pay. The methods by which banks make their profits are *loans* and *discounts* — sometimes by one of these methods, sometimes by both.

When a banker makes a loan, the customer, in addition to giving a written promise to repay the money, usually deposits with the banker something of value. This deposit is made for the security of the banker. In case the customer does not re-

pay the money as promised, the banker can take the article of value and sell it, and repay himself out of the money thus obtained. That which the customer deposits with the banker as security is called *collateral*, and the loan is called a *collateral loan*. Savings banks will lend money when real estate is given as security, but other banks require security that can be sold quickly, and therefore will not accept real estate.

Bonds and stocks, which will be explained later, are often given as bank collateral, and also papers which show that merchandise has been deposited by the customer in some particular place and is owned by him. Such papers are called *bills of lading* and *warehouse receipts*. When a person deposits his watch, or a ring, with a pawnbroker, as security, and borrows money, the transaction is a *collateral loan*. The pawnbroker is doing on a small scale what the banker does on a large scale.

When a bank receives from a customer no security, but only his written promise to pay, the transaction usually comes under

the head of *discounts*. The bank buys the note (as this promise is called) from the customer. The price is the amount of money named in the note after the bank has deducted a payment for interest *in advance* for the time that is to elapse before the money is to be repaid. Sometimes, in such cases, the bank requires the note to be *endorsed*. That is to say, the customer must induce some one to write his name on the back of the note, by which, under the law, he guarantees that the note will be paid at the promised time. The person who endorses the note must, of course, be some one whose name is satisfactory to the bank.

Banks also discount drafts. A *draft* is a written order directing some one to pay money to some one else. This order may direct the money to be paid at once or else at a future time. In the first case it is a *demand* draft; in the second case it is a *time* draft. A check is a demand draft *on a bank*.

To illustrate the discounting of a draft, let us suppose that Henry W. Smith sells

$1000 worth of merchandise to Edward A. Jones. The terms of the sale are that Jones is to pay the money in sixty days, and that Smith, if he wishes to do so, can write an order (*draw a draft*, it is called) directing Jones to pay $1000 in sixty days to any one that Smith may choose to name. Now, in case Smith does not wish to wait sixty days for his money, he signs a draft on Jones, directing him to pay the thousand dollars in sixty days to Smith's bank. Smith then takes the draft to his bank and discounts it. That is to say, the bank buys the draft from Smith for nine hundred and ninety dollars. This sum is the amount of the draft after sixty days' interest (or $10) has been deducted. The bank then presents the draft to Jones and asks him to *accept* it. This means that Jones writes across the face of the draft a promise to pay it when the sixty days have passed. Sometimes the bank will ask the customer to have the draft accepted before it will agree to discount it. It depends on the reputation of the customer as to how far the bank

will trust him and how much business it will do with him. A very celebrated American banker said to a committee of the Congress of the United States that he would do business more readily with a man of small means and good reputation than with a very wealthy man whom he did not trust.

Banks are of four kinds, private banks, state banks, national banks, and federal reserve banks. Many private bankers are of very high reputation, and are considered safe to deal with. Sometimes, however, the newspapers contain a report that some private banker has failed. In order to safeguard depositors, state banks and national banks have been established in this country. They are under the regulation, respectively, of the State in which they are established, and of the Government of the United States. About eighty years ago many state banks did business by careless or risky methods, and there were many bank failures. State banks at that time were permitted to issue bank-notes, many of which went by the name of "wild-

cat bank-notes." At present state banks and national banks are under careful supervision, and failures are very rare. The only banks in this country that issue bank-notes are national banks and federal reserve banks. The latter are also under the supervision of the United States Government. Their bank-notes are so thoroughly protected that they are received all over the land as readily as are government notes. When a five-dollar bill is received in the course of business, few persons take the trouble to examine it to see whether it is a government note or a note of a national bank. It is unnecessary to do so. The bank-notes issued by national banks and federal reserve banks are so thoroughly protected by the Government that they are certain to be paid.

CHAPTER X

STOCKS AND BONDS

WHEN a man is in business for himself, all the money that he makes is his own. Of course, if the business happens to prove unprofitable, he has to suffer the entire loss. In spite of the fact that every one would like to keep for himself and his family all the profits of a business, there are reasons why this is not done in many cases. A merchant may see an opportunity to enlarge his business, but he may not have enough money to do so. He may find that the business has grown so greatly that he is unable to attend to it personally. He may feel that he needs some one who is just as much interested in the business as himself, with whom he can discuss matters and make plans. For any one of these reasons, or for all of them, a merchant may decide to share his business with a partner. This may bring about all the advantages that he expected; and a good

partner will sometimes make all the difference between success and failure. If, however, the partner should prove incompetent or dishonest, there is one important point to be considered. If a business fails, and more money is owed by the business than it can pay, then any person to whom the business owes money can collect it *all* from any one of the partners that he chooses to demand it from, if that one partner has enough property of his own to pay the debt. If one partner runs away with the property of the business, the other partner, or partners, must pay all the debts of the business. If one partner by foolish methods causes the firm to fail, then, if the partner who caused the failure has no property except what he invested in the business, the other partner must pay all the debts — if he can.

Long ago, in Great Britain during the eighteenth century, there was a widespread interest in foreign commerce. Certain business men thought that it would be a very profitable thing for them if they could secure a great deal of money from persons who

should be partners only so far as to invest money, but who should not take part in managing the business. There were formed what were known as *joint-stock companies*. Suppose that it was planned to raise a sum of money equal to $100,000 — to carry on foreign trading. The business was divided, on paper, into 1000 parts, and any person who paid $100 was given a paper which stated that he was the owner of one of these parts. When all the 1000 parts had been sold, the sum of $100,000 had been obtained in cash.

But plans for making money are not always successful. One of the greatest of these joint-stock companies turned out to be a very great failure. All of its money, an immense sum, was lost, and the company still owed very great debts. Under the law at that time the joint-stock company was simply a great partnership concern with a very large number of partners. And as every one who owned a share in the company was a partner, the owner of only one share of stock, therefore, could be called upon to pay all of the

debts of the company, and he could be forced to do so if he had enough money. Many persons of great wealth were ruined at that time simply because they owned a little stock. A method was discovered by which such a risk was avoided. *Limited liability companies* were formed. The stock was divided and sold in the same way as before, but the buyer of the stock could not be held liable to pay all the debts of the company. The worst that could happen was for him to lose the money that he had paid for his shares of stock. Under this arrangement, if a man owns one tenth of the stock of a company, he is entitled to one tenth of the profits of the company. If there are nothing but losses, year after year, his share of the losses is paid out of the money that he put into the business. Of course, in that case, his share in the business becomes less and less valuable. But at all events he cannot lose more than he put in.

These companies are called, in this country, *corporations*. Thousands of people who had money would never have dared to be-

come partners in business ventures because they knew nothing about the management of such lines of trade, and they were afraid that, as partners, they might lose everything that they possessed. These same people, however, were glad to invest a small part of their money in enterprises which they thought would be successful, when all they had to do was to pay a small sum for shares in a corporation. In this way great business enterprises were made possible and the risk was shared by thousands of persons in exact proportion to the amount each one invested.

There is one point of great importance, however, that many persons do not understand. Suppose that the sum of $100,000 is raised by selling 1000 shares of stock for $100 per share. A person who pays $1000 for this stock receives a piece of engraved paper called a *certificate of stock*, which states that the holder of that certificate is the owner of 10 shares of such and such a company. But it has been customary for many companies to have the figures "$1000" en-

graved or stamped in a corner of the certificate. Also words that indicate a money value form part of such certificate. It may read, for example, "The holder of this certificate is the owner of 10 shares of the par value of $100 per share." Such words and figures may be misleading. The certificate may be worth $1000, or more or less, at any future time. It is worth in cash, at any time, just whatever sum in cash some one can be induced to pay for it. In a company whose entire stock is 1000 shares, the owner of 100 shares is the owner of a one-tenth interest in the company; and *nothing else!* If the company makes a great deal of money, his stock may become worth much more than $100 a share. If the company loses money, his stock may become worth nothing at all. In any case, a share of stock means the ownership of a certain definite proportion of a business (corporation); and nothing more.

Bonds are entirely different in principle from stock. They may be considered as *notes* of a corporation; that is, written prom-

ises of a corporation to pay money at a future stated time. They are always secured by the deposit, in the hands of a trustee, of some property owned by the corporation. If the bonds are not paid at the promised time, it then becomes the duty of the trustee to sell the property and use the money thus obtained to pay the owners of the bonds. Bonds are usually promises to pay money at the end of several years. Bonds of railroad corporations often are to be paid at the end of fifty years. An advantage of a bond as an investment is that if a person buys one, he will not have his money paid back to him very soon, and consequently will not be obliged to look around in a short while to find a new investment.

Money paid for bonds is really money loaned to the corporation by the persons who buy these bonds. Payment for interest, therefore, must be made by the corporation to the bondholders. Payment for interest on bonds is usually made every six months. Some corporations make payments for interest by checks. This is done where

the owner of the bond has his name written on the bond itself. These are called *registered* bonds. Usually, however, bonds of $1000 each have sheets of coupons attached to them, one coupon for every six months from the day the bond was issued until the day when it is payable. One coupon is cut off by the owner every six months and taken to a place named by the corporation. There it is exchanged for the value of six months' interest on the bond, which is paid in cash.

CHAPTER XI

SPECULATION

A MERCHANT buys goods, intending and expecting to sell the same goods at a higher price than he paid for them. He buys the goods as cheaply as he can. If he has enough money to pay cash, he can buy them cheaper than if he promised to pay for them after three months. If he buys a large quantity, he can get them cheaper than if he bought only a small amount. Therefore, a merchant who is able to pay cash for the goods he buys, and who has enough cash to buy at one time as many goods as he thinks he can sell in a reasonable time, is likely to get his goods as cheaply as they can be purchased by anybody. When he sells the goods, he will generally charge as much for them as he can. But it will not do to charge too much. He is not the only merchant, and if his prices are too high, customers will go to other merchants where they can buy

cheaper. It can be seen, therefore, even after this short explanation, that it requires something more than money to be a successful merchant. Good judgment and usually experience are necessary. When a man starts in business for himself, he ought generally to have enough money to buy for cash a sufficient stock of goods. He should also have had some training in the business that he is undertaking. Perhaps he has been for many years employed at a salary by some other merchant in the same line of business. During that time he may have saved enough money to start, in a small way, for himself. Finally, he should feel that he has good enough judgment to know when to buy goods, to know how much to buy at a time, and to know how to sell them successfully. If he makes a beginning under these conditions, he is doing what is called *regular* or *legitimate* business. There is another kind of business that is called *speculation*. This name is given to a business transaction when a merchant, or any one else, buys something and runs a consider-

able risk that he may not be able to sell it at a higher price. Of course, when he buys the article, he expects to sell it at a profit. Very likely he may succeed in doing so. In that case he has made a successful speculation. Let us suppose that a merchant has been in the flour business for many years, buying about the same amount every year, and selling it to his regular customers at a profit. He reads the papers and talks to other merchants and forms the opinion that a great war is likely to begin abroad. If the war occurs, it is practically certain that the price of flour will be much higher. He trusts his own judgment and buys a large quantity of flour — much larger than he would expect to sell to his regular customers in case there should be no war. If his judgment is right, the price of flour goes up and he sells his purchase at a large profit. But if there should be no war, he would find himself with a large stock on hand that he could not sell at once, except at a loss. If he keeps it until in time his customers need it and buy it, he has to pay fire insurance, perhaps storage

charges, and runs the risk of some of it becoming bad in quality. Take another case: It may be that the same merchant has studied the reports from foreign countries and his judgment tells him that the crops of grain in those countries are likely to be small. If that turns out to be true, the price of flour will go higher. He decides, therefore, to buy a large quantity, believing that his judgment is correct. All business requires good judgment and sometimes it is difficult to decide where legitimate business ends and speculation begins. The greater the risk of loss as a general rule, the more likely is a transaction to be a speculation. Sometimes the chance of loss is so great that speculation is too mild a word to use, and the transaction should be called *gambling*.

The business of buying stocks is perfectly legitimate. Dealers in stocks and bonds are as respectable as any other merchants. As this business requires a great deal of money, some people are inclined to look upon dealers in stocks and bonds as if they were carrying on a business of a particularly

high order of excellence. For persons who have ready money, it is very easy to buy stocks, because the article that is being purchased is represented by a piece of engraved paper bearing the signature of certain persons. As it is easy to buy stocks, many persons who have cash are tempted to buy them hoping to sell them soon at a higher price. This is speculation *always*, and *often* gambling. A regular dealer in stocks and bonds has been *trained* to his business. He knows when a stock is really cheap and a good purchase. His regular customers are persons who have saved money and buy stock to keep and not to sell at a profit. They want stock in order to get payments for interest on their money.

Let us consider, however, the case of a grain merchant, for example, who has made a profit in his regular business and has a few thousand dollars in cash. He thinks his judgment of stocks is worth trusting, and decides to buy stocks. He expects, for some reason or other, that the price will advance and that he will be able to sell at a profit.

Well, possibly his judgment (or it may be only a guess) turns out to be correct. He sells the stocks and makes money. The usual result is that he is convinced that he is a good speculator. He buys stocks again. He may succeed again; but one thing is perfectly certain: His mind is drawn away from his own business. He is giving his thoughts to a business in which he has no training and neglecting the business which he knows. To use a familiar expression, he is "playing another man's game." In this age the most successful men are those who specialize in one thing. They spend their time and use their brains in doing something about which they know a great deal. Of course they are more likely to succeed than if they worked at something of which they knew very little. This is particularly the case in buying and selling stocks. A man who is not trained in this business has for competitors men of keen intellect and immense wealth, whose training is just as complete as his own is deficient. It is reasonable to expect that in such a competition the un-

trained man will be the loser. And this, as a matter of fact, is almost invariably the case. An untrained man is practically either guessing or trusting to his luck. In the first case he is just a little more of a speculator; in the second case he is just a little more of a gambler. Whether gambling is right or wrong it is not the object of this book to discuss. It is sufficient to prove that it is *stupid.*

A business man may neglect his regular business to gamble — or speculate — in stocks. He cannot *possibly* deal in stocks without neglecting his other business to some extent. A clerk may waste his spare time and risk all his savings in playing some gambling game in which he either thinks he is skillful or in which he hopes to be lucky. A schoolboy may waste his spare time and risk his pennies in playing craps. There is a similarity — a great similarity — between these three individuals. They are all exceedingly foolish.

A friend of the writer's, a man who has

achieved reputation in his chosen line of work, has given the following definition of the difference between business and speculation: —

In business enterprises a man forms a partnership between his capital, his judgment, and his financial ability. The financial outcome is governed largely by his ability; whereas, —

In speculation a man invests his money according to his judgment, but the financial outcome is determined by circumstances which are not affected by his business ability.

CHAPTER XII

EXCHANGE

If a merchant in one country transacts business with a merchant in a foreign country, buying goods of one kind from him and selling him goods of another kind, the time will come when one merchant will owe the other a sum of money which he will be asked to pay. One way in which he can pay the debt is to send the amount that he owes in coin across the ocean. In this case it will be necessary for him to pay the steamship company that carries the coin a sum for what is called *freight*. He must also pay for insurance on the coin in case it is lost at sea. In spite of these expenses, this would be the only possible way of making the payment, if only two merchants in the two countries — one in each country, — were engaged in foreign trade. As a matter of fact, however, in all important countries there are many merchants engaged

in foreign trade. Such being the case, there is a method of settling almost all such debts without the need of sending abroad the actual coin.

Let us suppose that, out of the many merchants doing a foreign business, we select four, two in each country. In New York the two merchants are Williams and Clark. In London they are Smith and Jones. Let us suppose that, after a year of trading, Williams of New York owes $1000 to Smith of London, and Jones of London owes $500 to Clark of New York. Williams and Clark are friends. They discuss their foreign business together, and make an arrangement on the following terms: Clark writes an order (draws a draft) directing Jones of London to pay $500 to any one whom Williams may name. This draft is sold by Clark to Williams for $500. When this has been done, Clark no longer has any money owed to him in London. He has sold the debt to Williams, who has paid him the money, and has undertaken to collect the debt himself. Williams then

writes an endorsement on the back of the draft, directing Jones to pay the money to Smith of London. Williams now sends the draft to Smith in part payment of the $1000 that he owes, and Smith collects the money from Jones. This leaves only $500 for Williams to send in coin to Smith in settlement of what he owes. Moreover, if Williams can find another man in New York who has money owed to him by a London merchant, he may be able to buy an order on London for $500 more. Then, when he has sent both orders to Smith, the entire debt of $1000 will have been paid without the necessity of sending any coin across the Atlantic.

It is on this principle that dealers in *exchange* transact their business. When a merchant in New York wishes to collect a debt owed to him by a merchant in London, he draws a draft on the London merchant and sells it for cash to a dealer in exchange. The dealer sends the draft to a dealer in London who collects the money and owes it to the New York dealer. When some

other New York merchant owes money in London, and wishes to pay the debt, he buys from the New York dealer in exchange a draft on the London dealer. This he sends to the London merchant in settlement of the debt, and the London merchant collects the money from the London dealer. Transactions of this kind continue until dealers in one country owe so much money to dealers in the other country that it becomes necessary to pay the debt by sending coin across the ocean in spite of the expense of doing so.

Drafts on foreign countries are called *bills of exchange.* Like everything else that is bought and sold, bills of exchange are the merchandise of those who buy and sell them. And like every other merchandise, if many merchants wish to sell and very few wish to buy, the price will go down. If many wish to buy and few wish to sell, the price will go up.

If coin is sent to New York from London and it is intended to be kept in America and not to be shipped back again, it is

necessary to melt the foreign coin and have it made into United States coin. The gold in a British sovereign is worth $4.8665 in United States money at the "Mint," as the place is named where the United States Government coins money. If it were not for the cost of sending coin across the ocean, no New York dealer in exchange, when buying a draft on London, would pay more than $4.8665 for every sovereign (or pound sterling, which is another name for the same value in British money). On account of the expense of shipping coin, the price of bills of exchange often goes higher. When the demand for drafts on London is so much greater than the supply that the price goes up to $4.90 per sovereign or even a little less, it is more profitable for a dealer to pay his debt abroad by sending coin than by purchasing a draft. On the other hand, when a dealer has money owed to him in London, and he can sell a draft on London for only $4.83 per pound sterling or even a little more, he will refuse to accept such a low price. He will arrange

to have the coin sent to him from London, even if he has to bear the expense of doing so.

In dealings between the two countries, it is only the value of the metal in the coin that is considered. For this reason, instead of coined money there are sometimes sent across the ocean bars of gold of a certain weight and fineness.

In the financial sections of the daily newspapers we read constantly about *bank clearings* and the *clearing house*. The use of *bills of exchange* prevents the necessity of continual shipments of gold across the ocean. The *clearing house*, which is explained in the following paragraphs, saves an enormous amount of time, trouble, risk, and expense in the dealings of different banks with each other. The work of the clearing house is similar in principle to the use of bills of exchange, though the details of its operations are different.

Banks, as a rule, do not make payments to their depositors for interest on money which depositors are allowed to draw out by

means of checks. Trust companies, while they allow their depositors to draw checks, pay a small amount for interest on deposits.

In spite of getting no payment, or only a small payment for interest, people deposit their money in these banks and trust companies for several reasons. It is a convenience to be able to draw checks. When banks have only a limited amount of money to loan, they usually give the preference to their own depositors. Moreover, depositors are saved the trouble of collecting cash in exchange for the checks which they themselves receive. A merchant may receive a great many checks in the course of one day, drawn on many different banks and trust companies. He deposits them all in his own bank, and his own bank agrees to collect the money from all the banks on which the checks are drawn. In former days, every bank was obliged to send messengers to nearly every other bank in the same city every morning. These messengers took with them all the checks on the other banks in the same city which had been

deposited the day before in their own banks. They delivered these checks to the other banks, and brought back cash in exchange for them. This method of collecting the money took up a great deal of time. There was also a considerable risk involved. Messengers were sometimes robbed of the money, and they were always obliged to carry loaded pistols to defend themselves in case they were attacked. To avoid this risk and loss of time, an arrangement was made by which the business could be transacted every day in one place by associations of banks of the same city. These associations are called *clearing houses.*

In order to give a better conception of the work done by the modern clearing house, a brief description of the operations of the New York Clearing House is given. The New York Clearing House is an association consisting of forty-seven banks, fifteen trust companies, and the Assistant Treasurer of the United States at New York — sixty-three members in all. The meeting place is at No. 77 Cedar Street. The Asso-

ciation has a manager, an assistant manager, and a force of clerks.

Shortly before 10 A.M. every business day, every one of the sixty-three members of the Clearing House sends to this place two or more clerks and at least one messenger. From the time of arrival until they leave, about one hour later, these men cease to be employees of their own banks and become employees of the Clearing House. On the main floor of the building, one flight above the street, five rows of desks are placed which are divided into sixty-three compartments. Around these rows of desks there is sufficient space for a line of clerks to march in single file. As soon as he enters the Clearing House building, one of the clerks from each bank, called the *settling clerk*, lays a slip of paper on the desk on the main floor just inside the entrance. On this paper is written the total amount in money of all the checks which his bank has sent that day to the Clearing House. These are the checks which have been deposited in his own bank and which are drawn on other banks belong-

ing to the Clearing House. When the sixty-three slips are handed in, they are taken to the manager of the Clearing House or to some one who represents him. The settling clerk of each bank then takes the place belonging to him behind one of the five rows of desks. At the other side of the desk, directly in front of the settling clerk, the *delivery clerk* from the same bank takes his stand. He carries a satchel in which are packages of checks, each package containing checks drawn on one of the other banks. He also carries a slip of paper on which are printed the names of all the Clearing House banks, and the number which each bank has been given. These numbers at the present time run from No. 1 to No. 120, the same number being kept by a bank as long as it remains a member of the Clearing House. Fifty-seven numbers are now no longer used, as the banks that once held them are either no longer in existence, or for some other reason are not now members. On this slip, alongside the name of each bank, has been written the total amount in money of the checks on

this bank which have been brought on that day. The same clerk also carries small slips, one for each bank, on which the same information is written separately for each bank.

At 10 A.M. the assistant manager strikes a gong. If the clerks of any bank are not present and in their places when the gong is sounded, that bank is obliged to pay a fine. As soon as the gong is struck, the lines of delivery clerks begin to move. Every delivery clerk stops in succession at the desk of every settling clerk. He waits at each desk just long enough to do three things: He delivers a package of checks. He presents the long slip which he carries, on which the settling clerk signs his name on the same line where his bank's number and name are printed and where the amount of the checks, in the package just delivered, is written. This signature serves as a receipt for the checks on his bank. The delivery clerk takes back the long slip, hands in one of the sixty-two small slips, and goes on to the next desk.

As soon as he has signed the receipt for the

package of checks, the settling clerk enters the total amount of the checks in this package upon a long slip of paper, on a line where is printed the name of the bank which has delivered them. He then hands the package to his own bank messenger who is standing behind him, and who places it in a satchel. The amounts written on the small slips are compared with the amounts written on the packages and the slips are then sent to the manager.

While this work is being done on the main floor, the Clearing House clerks are entering on a slip of paper the amounts stated on the papers which were handed in by the settling clerks when they entered the Clearing House. The total of these sixty-three items represents the total amount of the checks brought to the Clearing House that day. The amounts written on the small slips sent in by each bank are then added together and show the amount of the checks delivered to that bank by all the other banks. These sixty-three items are added together and the total must agree with the first fig-

ures, being also the amount of all the checks brought to the Clearing House.

When the delivery clerks have handed in all the packages of checks, the settling clerks proceed to add up the figures on their slips. If the total amount of the checks delivered to a settling clerk is greater than the total amount of the checks on other banks which he brought to the Clearing House, the difference shows the amount which his bank must pay in cash. If the amount of the checks brought by him is greater than the amount of checks delivered by other banks, the difference shows the amount which his bank is to receive in cash. He enters both totals on his slip, performs the subtraction, shows the balance due to or from his bank, and sends his slip to the manager. The slips must be in the hands of the manager at 11 A.M. If any settling clerk is fifteen minutes later, his bank is fined three dollars. For a further delay of fifteen minutes the fine is three dollars more. A third delay of fifteen minutes costs his bank two dollars more. The total amounts due to the banks which

bring more in checks than they receive must equal the total amounts due by the banks which receive more in checks than they bring. If any mistake is made in the figures sent to the manager, the clerks must discover the mistake before they are allowed to leave. The bank whose clerk has made the error is fined for the time lost. Every bank which has a balance against it must send to the Clearing House the amount due, in cash, before 2 P.M. The money is distributed by the Clearing House to the banks to which it is owed.

An arrangement is sometimes made by which a bank belonging to the Association is permitted to "clear" checks for a bank which is not a member.

CHAPTER XIII

MONEY FOR WOMEN

ONE hundred years ago, in the United States of America, a man who occupied his time in trying to make money might have had a business or profession or trade of his own, in which case all the money that he made belonged to him. He might have had a partner, in which case the money that was made was shared between them. He might have been employed by some one else, in which case he received the salary or wages that had been agreed upon and the rest of the money earned by him belonged to his employer. Or he might have been a slave, in which case *all* the money that he earned belonged to his master. Of course the master gave him food and clothes and a place in which to sleep, otherwise he would have died or become ill, and could not have continued to earn money for his master. At the present time, the fourth and last of the

methods just described for making money is no longer supposed to be possible in this country. Slavery has been abolished under the law. But suppose that one hundred years ago, a man who owned slaves had sent for them to appear before him and had informed them that they were no longer to be called "slaves" but were to go by the name of "millionaires." It is not probable that the new title would have given much satisfaction to the slaves if they had still been treated, in every respect, in exactly the same manner as before.

Now, let us suppose that, at the present time, there are persons who spend practically all of their time in work for others. They are *told*, by the persons for whom they work, that they are *partners*. That is the *title* given to them, but all that they receive from the persons for whom they work consists of food and clothes and a place in which to sleep. Of course, they can *ask* for money to spend. One hundred years ago a slave could have asked his master for money to spend and he might have received it. But,

in both cases the person who was asked could decide whether or not the money was to be given. Also it was he whose judgment would decide what kind of food and clothing and shelter was to be provided in both cases — one hundred years ago and also to-day in the case that we have supposed. Is it probable that the title of *partner* will give great satisfaction if the privileges of a partner are entirely absent?

At the present time a few women have a business or a profession of their own. A greater number, but still comparatively few, have a trade of their own. A very large number are employed by others and are paid salaries or wages. All of these women receive money which has been earned by them and which they can spend to a great extent, as they may think fit. Many other women get married, and most of them occupy practically all of their time in working for others — their husbands and children. They are not supposed to be employed by their husbands. If they were paid salaries or wages as employees by their husbands, they might

very properly consider such payment as an insult. They are supposed to be in the position of partners. The husband goes out to work by which he earns money, whether he owns a business or has a profession or a trade or whether he receives a salary or wages. The wife takes care of the home and the children in whatever way may be necessary, whether she does all the work or is assisted by some of the children or is able to employ others to assist her. Each of the two partners has a certain work to perform and each one occupies practically all of the day in performing it. If the partnership is to be real and not one only in name, each partner should receive the proper return for the work performed.

It is not probable that many men treat their wives with deliberate unfairness. Many men who receive wages, and some who receive salaries, give their wives the entire amount received by them. Then they take back again a sum of money for their own personal expenses, and the rest is left with their wives to be spent for the needs of the

home. Other men, when they are paid by their employers, spend part of their money in having a "good time" with their friends. They keep part of what is left for their personal expenses, and they give the remainder to their wives. They say to themselves: "I earn the money, and I have a right to spend it as I please."

Some salaried men and many professional and business men pay all the household bills and give their wives what they consider a reasonable sum of money every week or every month. Often this sum of money is a large one. Others pay all the household bills and give money to their wives when they are asked for it. Sometimes they give whatever they are asked for and sometimes they do not.

Not one of the methods named, by which a wife comes into the possession of money, is either proper or reasonable as they have been described. In every case the method employed has been adopted according to the judgment of the husband. No matter if he decides to hand his wife *absolutely all* of the

money earned, this method of reaching a decision is improper and unreasonable.

In business, partnership contracts are the result of an agreement between the partners. In this country, and in the present age, it is not the custom for two persons who are about to marry to enter into an agreement relating to the manner in which their future income is to be expended. Whether the absence of such a custom is wise or right we shall not now discuss, but it is certainly a *fact*. If, however, marriage is to be a partnership in reality and not in name only, an agreement should be made after the marriage, and, *if necessary*, the terms of the agreement should be changed from time to time, according to possible changes in the family income, whether it be increased or decreased. It is a question of principle. It may be that the wife should reasonably expect a considerable sum of money every month to be expended as she may choose. Or it may be that the entire income is only sufficient with rigid economy to pay the necessary household bills, and that all the ready cash that

is left should *properly* be given to the husband for needed personal expenses. In either case, or in any other case, the two partners should discuss the matter carefully. They should come to a conclusion that is really an *agreement* between them and not the calculated decision of an employer or the arbitrary whim of a master.

CHAPTER XIV

TRAVEL

PERSONS who are living where they are well known, and who have good reputations for paying their debts, can obtain what they desire without making immediate payment. When they travel to places where they are unknown, they cannot reasonably expect such trust. The very word "travel," however, suggests the idea of expense. The cost of going from one place to another must be paid for, and the cost of food calls for another continual outlay of money. In addition to these items of necessity, travelers usually expect to pay money for sight-seeing and other amusements, and for the purchase of such articles as may appeal to their fancy. Travelers, therefore, must expect to make payments of cash continuously, from the time when they leave home until they return.

In former days travelers either took with them on their journeys enough gold and

silver money to supply all their needs, or else they carried with them a smaller supply of gold and silver money together with bills of exchange, which have already been explained. In both these cases, in addition to the possibility of losing the money, there is the risk of being robbed. For many years travelers have been provided with safer methods of obtaining cash in exactly the required amounts at the exact time when such amounts were needed. These methods are the use of *letters of credit* and of *travelers' checks*.

Letters of credit and travelers' checks are sold by well-known banks and bankers in the large cities of the world. The way in which they are used will now be explained.

Let us suppose that a man named Thomas H. Williams, who lives in New York, wishes to travel through Europe. He thinks that the expenses of his journey will be $1500, or a little less. He goes to some well-known banking firm — for example, Brown Brothers & Co. — and buys a letter of credit on London for £300. The rate of exchange on London, on the day he buys the letter

of credit, happens to be $4.90, and he therefore pays them $1470. He receives a document which reads as follows: —

Brown Brothers & Co.
Circular Letter of Credit. New York, March 1, 1916.
No. B/R 30000.

This letter to be surrendered with the last draft hereunder.

Gentlemen,

We beg to introduce to you Mr. Thomas H. Williams, to whom you will please furnish such funds as he may require up to the aggregate amount of £300 Stg. — Three Hundred pounds sterling, — against demand drafts on Messrs. Brown, Shipley & Co., 123 Pall Mall, London, — each draft to be plainly marked as drawn under Brown Brothers & Co.'s Letter of Credit No. B/R 30000.

We engage that such drafts shall meet with due honor in London if negotiated on or before June 30th, 1917, and request you to pay them at the rate at which you purchase demand drafts on London.

The amount of each draft must be inscribed on the back of this letter and *to this we wish to call your special attention.* This letter itself should be cancelled and attached to the final draft drawn.

Please see to it that the drafts be signed in your presence and carefully compare the signature with the one below.

We are, Gentlemen,
Your obedient Servants,
(Signed) BROWN BROTHERS & Co.

To Messieurs
The Bankers mentioned in our
List of Correspondents. THOMAS H. WILLIAMS.

On one of the pages of this letter of credit is printed a list of correspondents consisting of banks and bankers in various cities of Europe. The remaining pages contain blank spaces in which are to be written the payments as they are made by such banks or bankers.

After Williams has arrived in Europe, whenever he requires cash, he goes to the office of one of the correspondents named in the list, and shows his letter of credit. If he is in London, he goes to the office of Brown, Shipley & Co., and asks for, say, £50. He signs a demand draft on them for that amount, gives them the draft, and receives the amount of £50 in English money. Brown, Shipley & Co. write on the letter of credit that they have paid the amount of £50.

When Williams reaches Paris, he may require more money. He goes to the office of one of the correspondents named in the list, for instance, Hottinguer & Co., and asks for, say, £10. He signs a demand draft on Brown, Shipley & Co., London, for £10,

to the order of Hottinguer & Co. The rate of exchange between London and Paris on that day happens to be Fr. 25.50, which means that one pound sterling is worth twenty-five francs and fifty centimes. Hottinguer & Co. give Williams 255 francs in French money, and write on the letter of credit that they have paid the amount of £10.

In Berlin Williams needs more money. He goes to the Deutsche Bank and gives them a demand draft to their order on Brown, Shipley & Co., London, for £20. The rate of exchange between London and Berlin on that date is Mks. 20.80, which means that one pound sterling is worth 20 marks and 80 pfennigs. The Deutsche Bank pays 416 marks in German money to Williams and writes on the letter of credit that a payment of £20 has been made.

In every case the banker from whom Williams receives money sees him sign the draft and compares his signature on the draft with his signature on the letter of credit. If the letter of credit is lost or stolen, Williams should notify Brown, Shipley &

Co. at once, and they will immediately notify all other correspondents on the list. In the mean time, the only way in which money can be obtained by the person who has stolen the letter of credit is in case he can imitate the signature of Williams exactly, in the presence of some banker, and this is not likely to happen. Some bankers, when selling letters of credit, give two separate documents, one of which contains very little except the specimen signature of Williams. In this case Williams is expected to keep each document in a separate place, so that he would not be likely to be robbed of both at the same time.

In case Williams has not drawn the entire amount of the letter of credit, he can, on his return to New York, obtain the balance remaining unused from Brown Brothers & Co.

Besides purchasing a letter of credit outright for cash, there are other ways by which Williams can purchase it.

If he has good credit at his bank, or if he is a member of a firm or corporation which has a high reputation, he can arrange

for his bank or his business associates to give a guaranty to Brown Brothers & Co. In such a case, Brown Brothers & Co. will give him a letter of credit without any cash payment. As soon as each of his drafts has been paid by Brown, Shipley & Co. in London, they will send the paid draft to Brown Brothers & Co. in New York. Then Brown Brothers & Co. will figure out the amount due in United States money at the rate of exchange on the day when they receive the draft. They will send a bill for that amount, with the draft, to the bank or firm or corporation which gave the guaranty. This bill will be paid and the amount will be charged to the account of Williams.

Another way is for Williams to deposit money with Brown Brothers & Co., thus making *them* his bankers. They will allow him interest on the deposit. As each of his drafts is paid in London and is sent to New York, Brown Brothers & Co. will charge the amount of the draft against the account of Williams with them.

Another method is for Williams to deposit

with Brown Brothers & Co. railroad or other bonds, or real estate mortgages, or some other form of collateral security which he may possess. Brown Brothers & Co. will collect the income from such security as it becomes due, and will charge the amount of his drafts against the money thus collected. They will charge a small commission for their services in collecting such income.

The following is one of the forms of a traveler's check:—

When countersigned below with this signature.
(Signed) THOMAS H. WILLIAMS.

No. 150000.
New York, March 1, 1916.

Brown, Shipley & Co., London, £2.0.10. *s. d.*

Accepted (Certified)
(Signed) BROWN BROTHERS & Co.

Brown Brothers & Co. of New York or ourselves pay this travelers cheque for Ten Dollars, or its equivalent as specified, to the order of.....$10 if negotiated within two years from its date in accordance with the directions printed hereon.

(Signed) BROWN, SHIPLEY & Co.

Countersignature.
.....
See signature above.

In the blank space shown in the form above, the following amounts are given as

the equivalents which will be paid in various countries:—

Great Britain, Ireland	£2.0.10
France, Belgium, Switzerland	Fr. 51.25
Denmark, Norway, Sweden	Kr. 36.70
Holland	Fl. 24.55
Germany	Mks. 41.65
Russia	Roubles 19.20
Austria, Hungary	Kr. 49.00
Italy	Lire 51.25
U.S. America, Canada	$10.00

Travelers' checks are issued by the same banks and bankers as those that issue letters of credit, and they are also issued by express companies and by tourists' agencies. They are issued in little books, each book containing a certain number of checks for $10, $20, $50, and $100.

Williams could pay Brown Brothers & Co. $800, and he would receive in exchange a book containing checks like the above for different sums; for instance:—

20 checks for	$10	each	$200
10	20		200
4	50		200
2	100		200
	Total		$800

Whenever he needed cash in any city of Europe, Williams would look in his list for the name of the correspondent of Brown Brothers & Co. in that city. He would write the name of such correspondent in the blank space on the check, and would write his own name on the line underneath the word "countersignature." Then he could obtain from that correspondent the amount of money specified on the check.

If any of the checks remain unused, they can be cashed by Williams on his return, at the office of Brown Brothers & Co.

CHAPTER XV

BUYING

BUSINESS practice may properly be divided into six parts:—

Buying, Receiving, Paying,
Selling, Delivering, Collecting.

We shall first give two words of advice in regard to buying. The two words are "caveat emptor." They mean, "Let the buyer beware"; and these words have been used in law for generations. The law takes it for granted that a man who buys something will have enough interest in what he is doing to examine with reasonable care the article which he buys. The law gives him credit also for sufficient intelligence, when he looks at an article, to see what it would appear to be to a man of ordinary common sense. If a man buys something, and finds out afterwards that he did not get what he thought he was buying, he can either

suffer his loss or call on the law to give him what he thinks are his rights. If he chooses the second course of action, he begins by engaging a lawyer. Then his lawyer brings suit against the seller of the article. After a long time — usually a very long time — the case is tried in the courts. It is not enough for the buyer to feel perfectly sure that he has been cheated. He must actually prove that he has been cheated. He must prove that, in buying the article, he showed as much care as a man of ordinary common sense might have been expected to show. And then he must prove that the seller cheated him by making him believe that the article was more valuable to him than it really was. If he cannot prove these to be facts, he will not only suffer the same loss as though he had not gone to law, but he will be obliged to pay his lawyer's fee, and probably all or a part of the cost of the trial.

It can readily be understood, then, that a buyer must not be careless. Fortunately, most people are honest. Some are honest only because they believe in the old proverb,

"Honesty is the best policy"; but a greater number of people are honest because it is their nature to be so. And the meaning of the word "honesty," in business, is becoming stricter as time goes on. Twenty years ago, business men thought that certain actions were perfectly fair which to-day no honorable business man would think of committing.

But it is not possible for a merchant to look at everything which he buys. If he employs a buyer, of course the buyer is bound to show reasonable care in making purchases. But many purchases are made from sellers who are far away, and from whom the goods are ordered by mail or telegraph. In such cases the buyer is protected by custom. He is usually not expected to pay for the goods until they have been sent to him and he has had a chance to examine them. If he finds that the goods are not what they are represented to be, he can refuse to pay for them. Then the seller can take them back or else he, in his turn, can call in the aid of the law. But in this case

the seller will be forced to prove that the goods were exactly what the buyer had agreed to purchase.

A merchant always wishes to buy for as low a price as possible and to sell for as high a price as possible. There are two kinds of buying by which a low price can be expected — buying a large quantity and paying promptly. Either, or both, of these methods can be adopted if the buyer is able to make use of them. Some merchants, who have very little ready money, buy goods with the agreement that they can wait a long time, say four months, before paying for them. They expect to be able to sell the goods to their customers and collect the money for them before they themselves are obliged to pay. In this case they cannot buy the goods as cheaply as if they paid cash, and thus they cannot expect to make so much profit. Moreover, if the four months pass by before they have sold many of the goods or before they have been paid for, they themselves will be called upon to pay. Unless they can get cash to pay the bill,

they will be forced to fail. A merchant may have goods in his store worth thousands of dollars, but if he cannot obtain cash to pay his bills when due, he fails.[1]

Buying a very large quantity of goods will generally cause a lower price to be made than if a smaller quantity were bought. But some merchants have ruined themselves by purchasing larger quantities than were reasonable. They could not find customers for them all, and the goods became less valuable as time went on and as they grew older and stale or out of fashion.

A merchant is likely to be more successful if he is able to buy as large a quantity of goods at one time as he can sell quickly, and if he has sufficient capital to pay cash for them at once.

The seller often gives the buyer a choice in the time of payment. When the goods are ordered and have been sent, the seller makes out a bill with some such heading as

[1] The meaning of the word "fail," in a business sense, will be explained when we discuss the subject of paying for purchases.

this: "Terms: 2/10, 1/30, net 60." This means that, if the buyer waits 60 days before paying, he must pay the full amount of the bill; if he waits not more than 30 days, he can deduct 1 per cent from the bill; and if he pays before 10 days have passed, he can deduct 2 per cent from the bill.

By purchasing goods in fairly large quantity, and paying cash, a merchant can expect to make a reasonable profit on selling. Sometimes, however, a buyer who watches for opportunities and takes advantage of them has unusual chances to obtain goods at special prices. In cases like these, he will have an extra profit when the goods are sold, and this is known in the language of accounts as "profit on buying."

CHAPTER XVI

RECEIVING

When merchandise has been bought, it can be delivered to the buyer in one of several ways: he may receive it in his hands across the counter; it may be sent to him by mail; the seller may send it to him by messenger or delivery wagon; or it may be sent by express or by freight. Sending goods by freight is usually both the slowest and the cheapest method of shipment. By every one of these methods except the last, the merchandise is delivered directly to the buyer. Goods shipped to him by freight are brought by a railroad or steamship line to its freight station, and the buyer must send to that place for them.

In every case, except when goods are sold and delivered across the counter, it is the custom for the buyer, or some one who represents him, to sign a receipt for the goods when they are delivered. When merchandise is sent by freight, the railroad company or

steamship line gives the shipper (the person who sends the goods) a paper called a *bill of lading*. This paper is a receipt for the goods. It states exactly what goods have been received, where they are to be taken, to whom they are to be delivered, and how much is to be paid to the railroad or steamship line for its services.

The bill of lading may state that the goods are to be delivered to a certain person, or it may state that the goods are to be delivered to *the order* of a certain person. In the first case, the person to whom the goods are shipped can send his teamster for them with a truck, and the goods will be delivered as soon as a receipt has been signed by the truckman. But if the bill of lading states that the goods are to be delivered to *the order* of a certain person, the railroad or steamship company will not deliver the goods unless the bill of lading is handed to them by the person who comes for the goods. Also, the person to whose order goods have been sent must endorse the bill of lading by writing his name on

the back of it. If he wishes to do so, he can sell the goods to some one else before he receives them. In that case he endorses the bill of lading and gives it to the buyer, and the buyer sends his own truckman with the bill of lading, to get the goods.

Railroads and steamship companies are accustomed, as soon as goods arrive at the freight station, to send written notices to persons to whom the goods are shipped. A certain time is allowed in which to call for the goods. After that time a charge is made for storage. The length of time allowed is fixed by custom, or else is stated in the bill of lading or arrival notice.

When merchandise which has been bought has been received in one of these ways, the merchant or some clerk should examine it as carefully as may be necessary, to see if the merchandise which has been received is of the right quality and quantity. Then it is put in its proper place in the store or warehouse. A record should be made of all goods as soon as they have been received. This record is written in the

stock book, and the figures in it represent quantities — not dollars and cents. A separate page, or part of a page, is given to each purchase. The goods are described by their trade name, the mark or brand on the packages, and the quantity. Then, as the goods are delivered after being sold, the deliveries are recorded, one after another, on the same page, until all have been delivered.

The stock clerk is responsible for keeping the stock book correctly. From time to time it is the custom for merchants to make an inventory of their goods; or, as it is sometimes expressed, to take account of stock. At such times, the stock clerk takes his stock book and a piece of paper, and figures out what goods are in the store according to the records. While he is doing this, another clerk is engaged in counting the goods and making a list of what is actually in the store. The two results ought to agree, and will, unless some mistake has been made.

All goods in the store should be protected by fire insurance.

When merchandise is sent by express,

the express company agrees to deliver it in good order to the person to whom it is sent. If the merchandise is destroyed or damaged by fire or otherwise, before it is delivered the express company must pay for it. If merchandise is shipped by freight on a railroad, the company must pay for damages by fire or otherwise while the goods are still in the cars. After they have been unloaded at the freight station the owner must insure the goods against fire.

When merchandise is sent by freight in a ship, the owners of the ship are not responsible for damage to the goods during the voyage. The owner of the goods is obliged to protect them by what is called *marine insurance.*

In the case of fire insurance and marine insurance, a certain sum of money is paid to the insurance company by the owner of the merchandise. The company gives the owner a paper called a *policy*, which is a promise to pay the value of certain goods in case they are destroyed or damaged within a certain time or during a certain voyage.

CHAPTER XVII

PAYING

A BUSINESS man should try to arrange his affairs so that it will be convenient for him always to pay at the proper time for what he has bought. Of course he is bound to pay then, whether it is convenient or not. Sometimes his plans may go wrong. A customer may not pay money that seemed almost certain to be received, or business may be dull and sales be few. However, there is one thing he can always do, and there is no excuse for not doing it. He can keep before him a list of the payments which he is bound to make with the dates when he should pay the amounts due.

If a merchant has agreed to pay for goods on a certain date, or if he has signed a note or accepted a draft payable on a certain date, he must arrange to have the money ready at that time or the consequences may be very serious. If he cannot pay the money

when it is due his business reputation is always injured. He may ask the person or firm or corporation, to whom he owes the money to allow him more time, but even if his request is granted, that person or firm or corporation will never again have the same confidence in him. Moreover, the man to whom the money is owed may refuse the request. If he chooses he can go to law and sue for the money due. When he has proved that the money was due he can obtain a judgment. That is an order from the court which can be given to an officer called a *marshal.* The marshal has authority to take as much property belonging to the man who owes money as will be sufficient when sold to pay the debt.

When this happens to a merchant he is said to have "failed." When a merchant cannot pay money at the time it is due, he usually does not wait for a judgment to be obtained and for his property to be seized. He signs a paper called an *assignment,* by which he turns over all his property to some person whom he trusts who is called the

assignee. The duty of this person is to take charge of the business affairs of the merchant, to sell his property for as much as possible and as soon as possible, and to pay all his debts if there is money enough obtained to do so. When a man fails, it does not always mean that he is a *bankrupt.* A bankrupt is a person who is unable to pay what he owes and who has been allowed by the law to give up all his property to his creditors; that is to say, to the persons to whom he owes money. After he has done this according to certain forms of law, the law declares that he no longer owes any money. He can begin business again free of debt, even if the property which he gave up to his creditors was not enough or nearly enough to pay what he owed them. Sometimes, however, a merchant who makes an assignment has property which is worth much more money than the amount he owes. In this case the merchant is said to be *solvent.* His trouble is that, although he has enough property, he has not enough of that property in the form of cash. The as-

signee takes charge of the business, sells whatever property he can dispose of to best advantage, and pays the creditors. Then whatever is left belongs to the merchant. On the other hand, a man who owes more than the value of his property, is said to be *insolvent*, but there have been merchants who have managed to continue doing business for a long time after they were insolvent, because nobody knew it. They were able to get enough cash to pay their debts when they were due and they kept on doing business in hope that some lucky chance might make them solvent once more.

However, when a merchant makes an assignment, it is very likely that he will turn out to be insolvent. It is reasonable to suppose that a merchant will use every possible effort to raise money before he will admit that he has failed. He will borrow from his friends, sell goods at a sacrifice, do almost anything possible, before giving up the fight.

In paying for goods which he has bought, a merchant sends a check for the amount

which is due; or he gives a check to the collector who calls for the payment; or he pays, at the time when it is due, the note which he gave to the seller of the goods; or he pays, at the time when it is due, the draft drawn by the seller of the goods. Usually when a merchant signs a note or accepts a draft he makes it payable at his bank. Then it becomes his duty to see that he has enough money in his bank to pay the note or the draft when it is presented for payment.

If a merchant has enough ready money on hand he will pay cash when he buys goods, as he can generally buy them cheaper if he pays cash. If he has bought goods "on time," it may happen that he has cash to spare before the time has arrived when he *must* pay. He should then look over the bills which have been sent to him for goods that he has bought, and find out whether he can obtain a reduction in price by paying ahead of time. He may, for instance, find a bill for goods on which the terms are "2% 10 days, 1% 30 days, net 60 days."

It may be just 25 days since he bought the goods. It is too late to obtain the discount of 2 per cent by paying within 10 days, but he still has the choice of paying within the period of 30 days and getting a discount of 1 per cent, instead of waiting until the period of 60 days has gone by.

Business is regulated by law and by custom. If the law does not say what is to be done in any particular case, then the custom of the trade is the rule to be followed. In the payment of bills, unless there is a different custom in some particular line of business, the money is to be paid to the seller on the date due. For example, a merchant in New York sells goods to a merchant in Boston. The bill is dated December 4, 1916, and the terms are 60 days. Payment should be made *in New York* on February 2, 1917, on which date the bill is due. If the Boston merchant mails a check on February 2, he has not paid his bill properly. He is a day behind. If he sends a check on a Boston bank he has done still worse, because the New York merchant may

have to wait for his money until the check has been deposited in his own bank and has been sent on to Boston for collection. The proper way is for the Boston merchant to get from his bank a draft on a New York bank for the amount due, and to mail this draft to the New York merchant on February 1.

Some business men wait a day or two after a bill is due before paying it. Perhaps the person who receives the money will accept it and say nothing for fear of offending his customer. Nevertheless, it is a tricky way of doing business and will probably hurt a merchant's reputation in time.

CHAPTER XVIII

SELLING

A MERCHANT either buys goods which, as soon as he receives them, are ready for sale to his customers, or else he buys raw materials and manufactures the raw materials into the articles which he intends to sell. In either case, the goods are ready, sooner or later, to be sold. The merchant then can wait for customers to come to him, or he can go and look for customers or send salesmen to do so, or he can combine these two methods. At the present time almost all merchants advertise their goods in some way or other. An advertisement of any kind may be considered a silent salesman, unless it is a device for attracting attention by constant mechanical rapping on the window or something of that nature, in which case it cannot in fact be considered silent. When a new article is about to be offered for sale, large sums of money are sometimes spent for advertising before any profits can possibly be

expected. A great deal of advertising may sometimes result in large sales of even a very inferior article, but such sales cannot continue. When the public discovers that the article is worthless or inferior, the sales will come to an end. But a reasonable amount of money paid for advertising an article of real merit has been proved to be profitable in many cases. The advertising manager of a certain well-known household article is reported to have said that even if every woman in the United States bought that article regularly, he would still continue to advertise it. Unless he kept on telling his customers that his goods were the best he would expect his sales to grow smaller.

When merchandise is to be sold, one of the most important matters to be considered is the price to be set upon it. Of course in the case of goods which are sold by many merchants, it is necessary to consider the price charged by competitors. A merchant cannot expect to sell many goods if other merchants are selling exactly the same kind of goods for less money. We will suppose,

however, that the merchant whose affairs we are discussing is a man who understands his business. He knows that his competitors are not in business for their health, but that they are trying to make money just as he is trying to do. In any event, it is better to let his competitors do all the business unless he himself can sell for a profit.

A merchant can tell, by looking at his bills, what price he paid for the goods which he bought, how much it cost him for freight and marine insurance and for cartage from the freight station to his store. He knows that he must make his selling price more than this cost in order that he may make a profit. But how much more? That is the question. Being able to figure costs correctly sometimes makes all the difference between success and failure in business, for there are always three kinds of costs and sometimes four.

In the beginning there is the price paid for the goods and the expense of bringing them to the store or warehouse. This is the *first cost.*

Then comes the *manufacturing cost*, in case the merchant is a manufacturer. This includes the wear and tear on machinery, the replacing of worn-out machinery by new, the cost of lighting and heating the factory, the wages of the factory workers, fire insurance, taxes on machinery, and the cost of fuel.

Next we have the *selling cost*. This includes the salaries and expenses of salesmen, the freight on goods shipped to customers and other expenses of shipping goods, insurance on goods which are ready for sale, taxes on the same goods, and advertising.

Finally, there is the *overhead cost*. This includes rent and insurance on buildings, office salaries, stationery, postage and other office supplies, and wear and tear on office furniture and fixtures. If the merchant owns his buildings, then taxes take the place of rent.

Let us now suppose that the merchant is not a manufacturer. He must then consider first cost, selling cost, and overhead cost. He buys 2000 of the articles in which he

deals, which cost him $28 each when delivered in his store. The costs are as follows:

First cost	$56,000.00
Selling cost	6,500.00
Overhead cost	5,500.00
Total	$68,000.00
He sells the articles in the course of a year for $35.00 each and receives	$70,000.00
His profit is	$2,000.00

Let us now consider the difference between selling cost and overhead cost. The selling cost is generally greater or less according to the amount of business done. The overhead cost generally remains the same, whether many goods are sold or only a few. The merchant looks over his accounts and finds that the price which he is charging his customers is 25 per cent above his own first cost. He knows that he cannot charge more, because his competitors are selling the same goods at the same price. He finds that he is paying only the regular rates of salaries and wages and that his sales-

men's expenses and his other charges are no more than reasonable. There is only one answer. The overhead charges are too great in proportion to the amount of business done. He must sell more goods or go out of business. He decides to engage twice as many salesmen and to double the amount of his advertising. By this plan he succeeds in selling 4000 articles in a year instead of 2000.

The results are as follows: —

First cost	$112,000.00
Selling cost	13,000.00
Overhead cost	5,500.00
Total	$130,500.00
Sales	140,000.00
Profit	$9,500.00

By doing twice as much business, he has made nearly five times as much profit. In the first case, the merchant sold 2000 articles and made a net profit of $2000, that is, $1 each. In the second case, he sold 4000 articles and made a net profit of $9500; that is, $2.37½ each.

He is now in a position where he is not forced to keep the selling price as high as competition will allow him. He has some choice of his own in determining the price. He calculates that, if he reduces the selling price from $35 to $34, he can probably sell 6000 articles in a year instead of 4000, and also that he can do so without any further increase in his selling cost. At the end of another year he has sold 6000 articles and the results are as follows:—

First cost	$168,000.00
Selling cost	13,000.00
Overhead cost	5,500.00
Total	$186,500.00
Sales	204,000.00
Profit	$17,500.00

The 6000 articles have been sold at a net profit of $2.91⅔ each. By being able to reduce the price he has sold fifty per cent more goods, he has made a greater net profit on each article, and best of all he has made $8000 more money.

It may be well to add that it is hardly

probable that a merchant could do three times his former amount of business without increasing his overhead charge, at least to some extent.

Unless sales are made for cash, a merchant must be careful to sell only to customers who are likely to pay promptly. Unless he happens to know all of his customers personally, which is not often the case, he must make inquiries about them elsewhere. There are certain companies called *mercantile agencies* who make it a business to collect important information about business men. By paying a certain sum of money every year a merchant can obtain information from one of these agencies about his customers. Some merchants employ a clerk who is called the *credit man*. His business is to find out everything he can about the customers of the firm and not to let them buy more goods than it is probable they can pay for promptly.

The terms on which goods are sold are regulated by the custom of each particular line of business. In some kinds of business the customers are given more time to pay

their bills than in other lines of trade. Also the discounts which are allowed to customers for more prompt payments vary according to the customs of different trades. Where the custom permits it, a merchant generally asks his customers to give him a note for the amount of his bill or else he arranges to draw a draft on the customer and to have the customer write an acceptance of the draft. There are two reasons for such arrangements. In the first place, the merchant receives a promise *in writing* from his customer to pay the amount of the bill when it becomes due. In the second place, if the merchant happens to need cash, he can take the note or the accepted draft to his bank and discount it. It is becoming more and more the custom for merchants to obtain accepted drafts from their customers. Sometimes, when the seller is a little doubtful of the ability of his customer to pay promptly, he agrees to make a sale if the buyer will give a note and have the note endorsed by some one whom the seller considers responsible.

A word of explanation is now added as to

the methods of paying salesmen for their services: —

(1) A fixed sum as salary.
(2) A commission, consisting of a certain percentage on the value of the goods sold by him.
(3) Partly salary and partly commission.

With some exceptions, the best salesmen prefer to receive no salary, but a commission only. The reason is that an employer will always agree to pay a higher percentage of commission on sales actually made, if he is under no obligation to pay a fixed salary whether the employee is successful in making sales or not.

A salesman who has confidence in his own ability will reason in the following fashion: "Suppose that I get a salary. I *must* sell enough goods to satisfy my employer or I shall sooner or later be discharged. I know that I am a good salesman and *of course* I shall succeed in selling enough goods to satisfy my employer. Well, since I expect to succeed I will show my confidence in my-

self by asking for a high commission, to be paid only if I 'make good,' rather than a small salary, to be paid whether I make good or not."

CHAPTER XIX

DELIVERING

MERCHANDISE when sold may be delivered to the buyer by handing it to him across the counter, or it may be sent to him by messenger or delivery wagon, or it may be sent by mail or express or freight. In any one of these cases the price of the goods may be collected on delivery, or the customer's account may be charged and payment may be collected at a future time. When goods are sent by messenger or delivery wagon, it is customary to have a receipt prepared in advance, which is to be signed by the customer, or by some one who represents him, when the goods are delivered. Merchandise is seldom sent by mail except in small quantities. A mail package can be registered, in which case the post-office officials will obtain a receipt from the customer when the package is delivered. This receipt will be returned to the sender, if he so requests at the time the pack-

age is sent. Goods in packages of small size but of great value, such as diamonds or stocks and bonds, are often sent by registered mail. In such cases the merchandise is usually insured by the sender. It is placed in a package by a notary public who seals the package himself and mails it himself. Then the notary signs a document stating just what he has done. In case of loss this document is shown, as part of the proof of loss, to the insurance company which issued a policy of insurance on the merchandise.

Goods sent by express will be insured by the express company for a payment in addition to the regular express charges. Express companies always take a receipt when packages are delivered.

When goods are sent by freight, it is necessary to make out at least three copies of a form of receipt called a *bill of lading*. The railroad or steamship company will sign two of the copies as soon as the goods are received by them. The third copy is kept by the company. The two signed copies are given to the person who sends

the goods. Sometimes four copies of the bill of lading are made out. This is often done when goods are sent across the ocean. One copy, called the *captain's copy*, is kept by the company. One signed copy is marked "Not negotiable," and this is kept by the sender. Two other copies are signed and are called *negotiable copies*. They are also given to the sender. If one copy is sent to the customer or to some one else by mail and is lost, the other copy can then be sent in its place. The steamship company will deliver the goods on presentation of either copy. When goods are sent by freight, the railroad or steamship company always obtains a receipt when the goods are delivered. If merchandise is lost or damaged while in the cars of a railroad company, the money value of the loss or damage can be collected from the company. This is not the case when goods are shipped by sea. The shipper must protect himself against loss or damage by obtaining a policy of marine insurance.

When goods are delivered to a customer

in any manner, the seller's stock clerk should make a record of the delivery on his books. By adding up the number of articles of each kind delivered, and subtracting the total from the number of articles of that kind which he has received, the stock clerk should be able to tell his employer just how much merchandise of every sort should be in the store or warehouse. The employer can then find out by actual count whether or not the goods are really there.

In large business houses when a sale has been made or the time has arrived when an order is to be shipped, the sales department makes out a slip, stating just what goods are to be sent. A copy of this slip is kept in the sales department and from it a bill is made out and mailed to the customer. The original slip is sent to the stock clerk. He picks out the proper goods and sends them to the customer, or else turns them over to the delivery department (if there is such a department) for shipment. All this work is carefully checked, to avoid mistakes, includ-

ing the sales slip, the bill (or invoice, as it is sometimes called), the selection of the goods, and their delivery to whatever carrier is to take charge of them.

CHAPTER XX

COLLECTING

When merchandise is sold, the price is collected from the customer either at the time when the goods are delivered or at some time thereafter. In either case, there are different methods of collecting the money.

The simplest method is to collect the cash at the time when he buys the goods. This is the usual method in large department stores and is always the method where the customer is a stranger. When goods are sent to a customer by messenger or delivery wagon, the person who has charge of delivering the goods can be instructed to collect from the customer the money that is due, before the goods are delivered. When merchandise is sent by express, the express company can be told to deliver the goods "C.O.D.," which means, "Cash on delivery." The express company will give a re-

ceipt to the sender in which it is stated that the goods will not be delivered until the person to whom they are sent has paid a certain sum of money. The express company agrees to pay this money to the sender, when it has been collected, after deducting a charge for its services in making the collection. When goods are shipped by freight, there is a method by which the sender can collect the money that is due before the customer receives the goods. In business language this method of collection is known as *a draft with bill of lading attached.* The seller writes an order directing the customer to pay a certain sum of money after a certain number of days. This order is called a *draft.* The number of days is sufficient to allow the goods to arrive at their destination before the time when the draft must be paid. In the draft the customer is usually directed to pay the money either to the order of the seller or to the order of the seller's bank. Then the bill of lading is pinned to the draft and they are given by the seller to his bank, with instructions that

the bill of lading for the goods is not to be delivered until the draft has been paid.

Let us suppose that P. F. Carroll & Co., of New York, have sold goods to Marston & Mandel, of Buffalo. The goods have been shipped by the New York Central Railroad Company and the amount of the bill is $350. A draft is drawn by the sellers in the following form: —

$350.00 New York, Jan. 10, 1916.

Ten days after date pay to the order of Ourselves Three hundred fifty dollars, value in account with P. F. CARROLL & Co.

To Messrs. Marston & Mandel,
Buffalo, N.Y.

P. F. Carroll & Co. endorse this draft by writing their name on the back of it, or else by writing above their name the words "Pay to the order of the Corn Exchange Bank." Then they pin to the draft the bill of lading for the goods, and send the draft to the Corn Exchange Bank for collection. The Corn Exchange Bank then endorses the draft and sends it to some bank in Buf-

falo. The Buffalo bank presents the draft to Marston & Mandel on January 11, and they write on it their "acceptance," which is their promise to pay the draft on January 20. When Marston & Mandel are notified by the railroad company that the goods have arrived at Buffalo, which will probably be before January 20, they send $350 at once to the Buffalo bank and the bank gives them the draft and the bill of lading. As soon as the Corn Exchange Bank in New York receives word that the draft has been paid, it notifies P. F. Carroll & Co. that their account has been credited with $350 and has been charged with a certain small sum for collection.

When goods are sold and delivered to a customer and payment is to be made at a future time, a bill is sent to the customer and his account is charged on the seller's books with the amount due. When the time for payment has arrived, a clerk can be sent to the customer's office to ask for payment, which is usually made in such a case by giving a check. If the customer is in another

city, a draft can be drawn on him by the seller and can be collected through a bank. If a discount is allowed by the seller for payment before the bill is due, the customer often sends a check in advance in order to have a right to deduct the amount of this discount from the bill.

Often there is an agreement that the buyer shall give the seller a promissory note for the amount of the bill, and this note is made payable on the date when the bill is due.

Another method is for the seller to draw a draft on the customer for the amount of the bill, making the draft payable on the date when the bill is due. This draft is mailed to the customer who writes his acceptance on it and mails it back to the seller. This method is becoming usual in certain lines of business.

When a merchant has received a note or an acceptance from a customer, he can obtain cash at once by discounting it at his bank. This means that he endorses the note or the acceptance and sells it to his bank for cash. The bank pays him by crediting his bank account with the amount of the note

or acceptance after deducting, in advance, a charge for interest for the time that will elapse before the date when the note or draft will be paid.

If the merchant does not need cash at once, he will keep the note or acceptance until a few days before the date when it becomes due. Then he will endorse it and give it to his own bank for collection.

Merchants who are in the habit of taking notes or acceptances from their customers should keep records which show clearly and readily the dates on which such notes and drafts are due. It is true that, even if a note or acceptance is presented for payment after the date when it is due, and payment is not made, the customer who signed the note or accepted the draft can be sued at law. But it is often the case that a merchant will not take a note or acceptance from a customer unless it is endorsed by some one whom he considers responsible. If there is an endorsement and the customer fails to pay, the merchant can sue either the customer or the endorser, or first one and then the other, if

he fails to collect the money from the one whom he sues first. But he can sue the endorser only in case he secures the proof, required by law, to show that the draft or acceptance was presented for payment on the exact date when it was due. The law requires that if payment is not made when the note or acceptance is presented in the usual way, it shall be given to a notary public who shall present it again for payment, on the same day. Then, when payment is again refused, the notary writes a statement of what he has done and sends a notice to every person whose name appears on the note or acceptance, that payment has not been made. This is called *protesting* a note or draft and the notice sent is a *notice of protest.* If this is not done, every endorser is released from his obligation to pay, and only the signer of the note or the acceptor of the draft can be sued at law.

A check is a demand draft on a bank, and the above rule in regard to endorsers applies also to checks. The law requires that a demand draft shall be presented for payment

within a reasonable time. If a man who receives a check holds it for several days before depositing it in his own bank for collection, this fact alone is sufficient to release every one who may have endorsed the check from any obligation to pay, in case the man who drew the check did not have money enough in his bank to pay it, or in case the bank fails before the check is presented for payment. Even if the check, when received, is deposited at once for collection, and it has an endorser, it is necessary to have it protested by a notary if payment is not made by the bank on which it is drawn. If the check is not protested, the person who signed it can still be sued, but the endorsers are released from any obligation to pay.

If a man, after giving some one a check on a bank, finds out that for some reason or other he should not have given it, he can notify the bank not to pay the check and the bank will not pay it. This is called *stopping payment* of a check. If the man who received the check was really entitled to the money, he can, of course, sue the man who

gave him the check and who afterwards stopped payment. But let us suppose that the man who received the check endorsed it and gave it to some one else in exchange for something of value. The check is then, in business language, in the possession of a *holder in due course.* In this case, if payment of the check is stopped even for very good and sufficient reasons, the holder in due course can demand payment of the amount of the check from the man who signed it, and the law will compel the signer of the check to pay the money.

Business men are usually obliged to employ the services of clerks to transact a great deal of their business and to keep their accounts. It is the custom of good business men to examine the work of their clerks from time to time or to have it examined by others. This should always be done, not only in justice to the business man himself, but also in justice to the clerk. Everything should be checked. Especially when the bank deposit book is balanced by the bank, the canceled checks which are returned by

the bank should be compared, by the employer personally, with the entries which the clerk has made in the checkbook.

Few things are more dangerous to a man than the knowledge that he can do what he pleases and that nobody will call him to account. When a clerk is in a position of trust, it is not right to expose him to such temptation. Neither should a business man be expected to permit any one to have charge of his property without any check upon that person's actions. A clerk is very unreasonable who feels insulted when his accounts are examined. If his work is good, he ought to feel glad to have his employer know it. If his work is dishonest or inefficient, he has no right to complain when his employer discovers that fact.

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